ZIMBABWE

The 2011 National Budget Statement

Shared Economy, Shared Development, Shared Transformation

"Creating the Fair Economy"

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> *"Always bear in mind that people are not fighting for ideas, for the things in anyone's head. They are fighting to win material benefits, to live better and in peace, to see their lives go forward, to guarantee the future of their children"*
> Amilcar Cabral.

I. MOTION

1. Mr. Speaker Sir, Section 103 (1) of the Constitution of Zimbabwe, read together with Section 28 (1)(a) of the Public Finance Management Act, demands that the Minister responsible for Finance shall cause to be prepared and lay before Parliament, on a day on which Parliament sits, before or not later than 30 days after the start of each financial year, Estimates of Revenue and Expenditure of Zimbabwe for that financial year.

2. Consistent with our laws, it is with humility that I Move that Leave be granted to bring in a Bill to make Provisions in connection with Revenues and Expenditures of the Republic of Zimbabwe for the financial year January to December 2011 and to make Provision for matters ancillary and incidental to this purpose.

II. INTRODUCTION

3. Mr Speaker Sir, on 27 June 1981, African Heads of State and Government met in Nairobi and adopted the African (Banjul) Charter on Human and People's Rights.

4. Article 22 of this Charter reaffirmed the right of all African people to economic, social and cultural development and obliged all African States to ensure the pursuit and exercise of the right to development.

5. Mr Speaker Sir, the obligation to pursue the right to development, within the context of all other broad social and democratic rights defined in the African Charter is the foundation stone of the present Budget.

6. In the pursuit of this developmental vision, Mr Speaker Sir, and consistent with the dictates of the Public Finance Management Act, Treasury embarked on extensive country wide consultations in respect of the preparations for the 2011 Budget.

7. The consultations covered the length and breadth of the country, embracing a wide spectrum of stakeholders across all the Provinces, with meetings held in Harare, Mutare, Masvingo, Bulawayo, Bindura, Chinhoyi, Marondera, Gweru, Beitbridge and Victoria falls.

8. Mr Speaker Sir, allow me to thank the thousands of Zimbabweans who came to give testimonies during the consultations.

9. There were the likes of King Chilimba and Jerry Gotora in Marondera, Dumisani Mbikwa Nyoni and Brain Williamson in Victoria Falls, Tungamirai Kurunzwa and Mrs Mwedzi in Masvingo, Ruth Labode and Lindela Ndlovu in Bulawayo, Xavier Kadhani and Edwin Magoga

in Bindura, Mutongi Makumbirofa and Paul Braystone in Beitbridge, Cephas Jack and Felix Gwarure in Chinhoyi, just to name a few.

10. In addition to the Provincial consultations, Treasury had extensive consultations with a plethora of other stakeholders.

11. These included representatives of Labour and Business, including the Zimbabwe Congress of Trade Unions, the Confederation of Zimbabwe Industries, the Zimbabwe Commercial Farmers Union, the Commercial Farmers Union, the Zimbabwe National Farmers Union, the Zimbabwe National Chamber of Commerce, the Chamber of Mines, the Institute of Chartered Accountants, and the Retail Association of Zimbabwe, among others.

12. Mr Speaker Sir, preparation of this Budget is also indebted to the many written contributions and representations made by various organisations and persons through the Treasury website.

13. Mr Speaker Sir, let me also thank Parliament for the valuable contribution to the Budget during consultations held in Victoria Falls over 4 - 6 November 2010. Allow me also to appreciate the inputs of the various Parliamentary Committees, particularly the Committee on Budget, Finance and Investment Promotion.

14. Mr Speaker Sir, it is self evident from the Budget consultative meetings that the Vision to build a **Stable, Modern, Dynamic, Democratic and Developmental State** is shared by the majority of Zimbabweans. This Vision was articulated in our anchor documents,

STERP[1] I and the Three Year Macro-Economic Policy and Budget Framework: 2010 – 2012, i.e. STERP II.

15. Central to the realisation of this Vision, Mr Speaker Sir, is the necessity for a paradigm shift, encompassing inclusivity and democratic values in the management of both the economy and, indeed, the State.

16. Mr Speaker Sir, specific key concerns highlighted by stakeholders during the consultations for the attention of the Budget included the following:

- Guaranteeing uninterrupted power supply.
- Reconstruction and rehabilitation of roads infrastructure.
- Guaranteeing clean water supply and improved sanitation services.
- Improving health and education social service delivery, among others.
- Social protection and safety nets, including for people living with disability.
- Support for agriculture and household food security.
- Continued stability in the price level, including sustainable wage levels.
- Positive Interest rates on bank deposits, and Access to affordable lines of credit.
- Employment creation.
- Abuse of public resources and Corrupt practices.

[1] The Short Term Emergency Recovery Programme, March 2009

- Perceptions of exclusion in development programmes.
- Political discord in the Inclusive Government and Absence of National healing.

17. Mr Speaker Sir, in highlighting the above concerns, there is general acknowledgement among stakeholders of the decline and difficulties that faced our economy throughout the country over the last decade. Of concern, however, is the feeling that the sharing of the pain from the decline was not shared equitably.

18. The most overwhelming story out there in our people is the deep sense of exclusion and despair, especially with regard to rural underdevelopment versus urban, and Harare development versus other centres.

19. While those in rural areas felt they bore the brunt of the pain, those in the urban areas outside of Harare also harbour feelings of disproportionate sharing of both the pain as well as the recovery.

20. In this regard, there is a perception that the national cake is not being shared equitably, breeding concern over ownership and the integrated participation of all stakeholders in the country's development programmes.

21. The mind set of depression and inertia owes a lot to a long period of multi-layered self induced policy distortions. The kind of issues we sought to address in STERP. These include policies centred on

dirigisme, controls, exchange rate distortions, over regulation, quasi fiscal activities, lack of capacity and general democratic deficit.

22. Whatever the cause of the crisis, it was clear from the presentations we received that the country has to pursue the agenda of development. That we have to deal with the challenges of a dual enclave economy that paid much respect to an integrated formal sector which is much more integrated into the global economy at the expense of the non-formal sector where the majority of the population, particularly women, are housed.

23. Furthermore, we have to craft an alternative accumulation model that puts transformation and equality at the centre. In short, the articulation of a development model that oversees the enlargement of the social base of development and the internalisation of the accumulation base.

24. Put simply, Mr Speaker Sir, let us make Article 22 of the African Charter on Human and People's Rights a reality.

25. This challenges Government, through the Budget and other interventions, to pay more attention to Provincial and rural development projects and programmes, that way also overcoming some of the perceptions of exclusion and despair expressed in other Provinces.

26. Mr Speaker Sir, however, before proposing Budget interventions for 2011, allow me to begin by highlighting some of the global and domestic economic developments.

III. GLOBAL ECONOMIC DEVELOPMENTS & OUTLOOK

OUTPUT

27. Recovery of the global economy from the financial crisis of 2008/09 continues, benefitting from massive fiscal stimulus packages which spurred industrial production and boosted aggregate demand. Overall, international policy coordination also facilitated this quick recovery.

28. As a result, global economic growth is estimated to rebound to 4.8% in 2010 from a decline of -0.6% in 2009. The rebound was largely driven by higher growth in emerging and developing economies, with an average growth rate of 7.1% in 2010 from 2.5% in 2009.

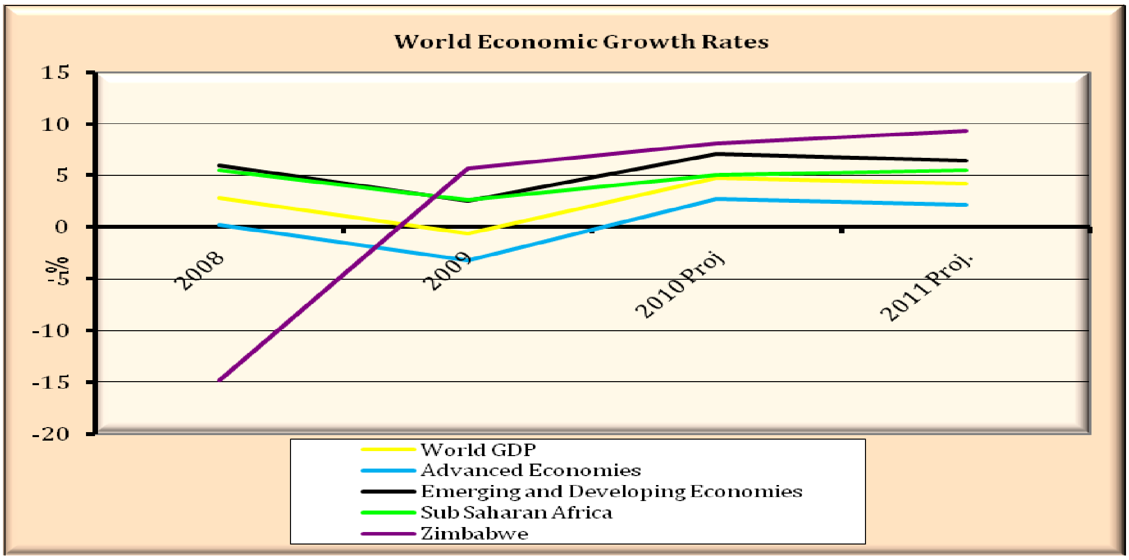
29. Among the emerging and developing economies, China and India are expected to register the highest growth rates of 10.5% and 9.7%, respectively, in 2010.

30. Similarly, unlike in the past, Sub-Saharan African economies recovered faster, owing to prudent fiscal and monetary policies, strengthened regulation of the financial sector, and targeted support for potential high growth sectors.

31. Furthermore, the recovery of demand, particularly for commodity mineral products in advanced economies, improving international commodity prices, foreign direct investment, remittances and aid flows also assisted recovery of African countries.

32. As a result, Sub-Saharan African economies are expected to grow significantly from 2.6% in 2009 to about 5.5% in 2010.

33. On the contrary, growth in advanced economies remains sluggish at an estimated 2.7% in 2010 from -3.2% in 2009. Downside risks include withdrawal of policy stimulus packages, fiscal fragilities, particularly in Europe, financial sector vulnerabilities and asset price volatility.

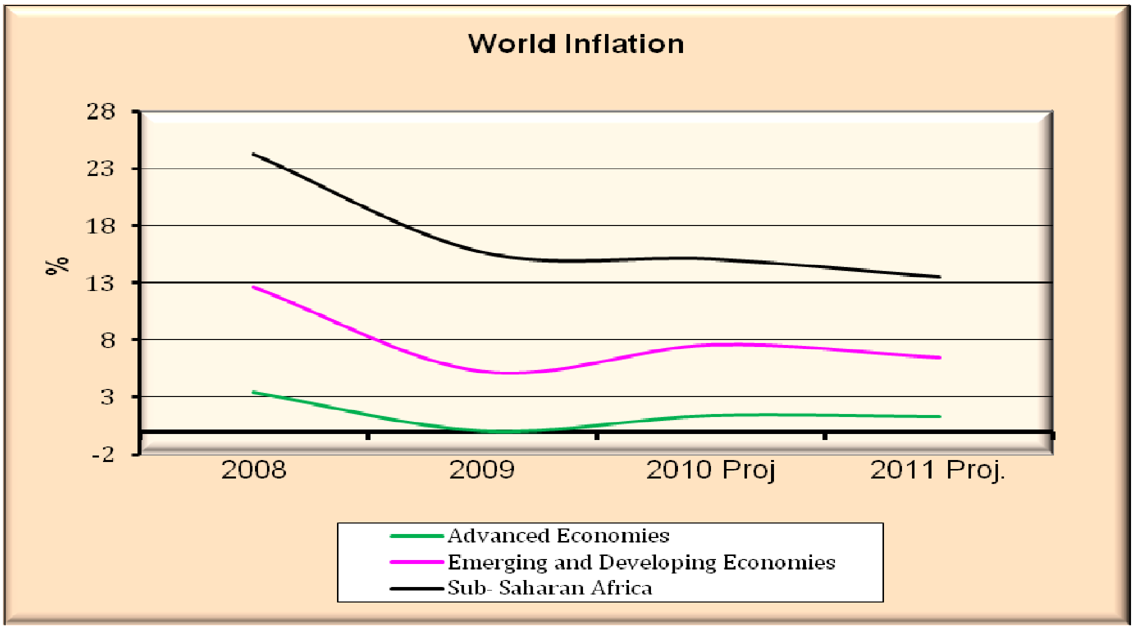


GLOBAL INFLATION

34. Notwithstanding the expansionary fiscal policies pursued by most advanced and emerging economies in response to the depth of the recession, global inflation remains under control.

35. In the advanced economies, inflation remained low, averaging 1.3%, while in emerging and developing economies, inflation was contained within single digit levels, averaging 6.2%. In Sub-Saharan Africa, inflation averaged 7.5% in 2010, reflecting monetary easing by some oil exporting countries in pursuit of growth.

36. Low inflation reflected a number of factors, which included more credible inflation control measures, improved capacity utilisation, containment of wages and prices and overally improved credibility of monetary policies.



INTERNATIONAL COMMODITY PRICES

37. In the aftermath of the financial crisis, international agricultural, mining and energy commodity prices are generally on the rebound, mainly as a result of recovery in global demand.

38. Maize prices, which averaged US$165 per ton in 2009, increased to an average of US$206 per ton in 2010. Similarly, wheat prices which averaged US$223.4 per ton in 2009, have also increased to US$271.9 per ton. Cotton prices went up from an average of US$0.32 per kg in 2009 to US$0.47 per kg in 2010.

39. Mineral prices also firmed, with nickel trading around US$22 681 per ton in 2010, from US$14 600 in January 2009. Gold prices reached a record high of US$1 300 per ounce in September 2010, from US$919 in 2009, while platinum prices rose by over 53%, from US$979 per ounce in 2009 to over US$1 500 in September 2010.

40. Energy prices, depressed during the crisis period owing to low industrial capacity utilisation, are on the rise, with crude oil trading above US$78 per barrel by September 2010, compared to an average of US$45 per barrel in January 2009.

International Commodity Prices	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Gold (US$/Ounce)	1118.0	1095.4	1113.3	1148.7	1202.0	1232.0	1194.9	1216.5	1271.2	1342.0
Nickel (US$/metric ton)	18470.1	18986.9	22524.3	25346.0	21193.5	19586.0	19484.0	21435.9	22681.1	23224.3
Tobacco (US$/metric ton)	2750.0	2759.9	4390.4	4390.4	4400.0	4403.0	4405.0	4410.0	4415.0	4420.0
Platinum (US$/ ounce)	1564.0	1522.5	1602.9	1698.3	1625.6	1557.3	1526.0	1538.0	1590.3	1624.0
Sugar (cents/pound)	28.4	26.0	19.3	16.3	14.6	15.4	19.7	18.6	22.7	26.9
Cotton (US$ cents/pound)	77.4	80.1	85.8	88.1	90.1	91.7	84.1	90.4	104.7	126.0
Wheat (US$/metric ton)	201.2	194.4	191.1	192.9	181.6	157.7	195.8	246.3	271.9	270.3
Maize (US$/metric ton)	167.3	161.5	158.9	157.2	163.2	152.8	163.9	175.4	206.2	235.7
Petroleum (APSP) (US$/barrel)	76.4	74.3	79.3	84.2	75.6	74.7	74.5	75.9	76.2	81.7

Source: IMF World Economic Outlook October 2010

OUTLOOK

41. The global economic outlook remains positive, with economic growth of 4.2% projected in 2011. Emerging and developing economies will

continue to lead, and projected to register growth rates of 6.3% in 2011, with Sub-Saharan Africa growth projected at 5.5%, Asia, 8.4%, and Latin America, 4%.

42. However, growth in advanced economies will remain weak, at an average of 2.2% in 2011, owing to weak domestic demand, related to higher unemployment and low private consumption. Other key downside risks include the rise in public debt which is projected at over 100% of GDP by 2014, vulnerabilities within the financial sector, as well as diminishing commitment towards cooperation.

Global Economic Growth

	2008 (%)	2009 (%)	2010 est. (%)	2011 proj. (%)
World Economic Growth	2.8	-0.6	4.8	4.2
Advanced Economies	0.2	-3.2	2.7	2.2
Emerging and Developing Economies	6.0	2.5	7.1	6.4
Sub-Saharan Africa	5.5	2.6	5.0	5.5
Latin America	4.3	-1.7	5.7	4
Asia	7.7	6.9	9.4	8.4

43. With regards to commodity prices, the projected slow-down in economic activity will reduce demand for commodities. Furthermore, the projected moderate growth in China, which has the largest global share of commodity demand, will restrain commodity demand expansion and, hence, commodity prices.

44. Inflation is projected to remain low at 1.3% and 5.1% for advanced and emerging economies, respectively, amid continued low aggregate

demand and high unemployment, with exceptions for a few emerging countries.

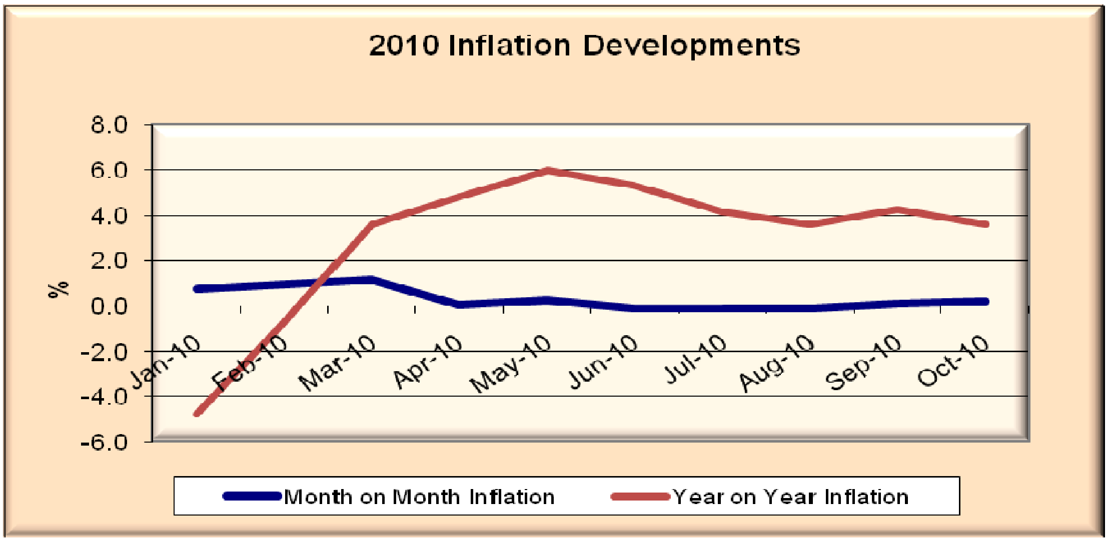
IV. RECENT ECONOMIC DEVELOPMENTS

INFLATION

45. Mr Speaker Sir, a major achievement of STERP's macro-economic stabilisation measures has been containment of inflation to levels consistent with the SADC and COMESA macro-economic convergence targets.

46. In 2010, month-on-month inflation opened the year at 0.7%, before rising to 1% and 1.1% in February and March 2010, respectively. This decelerated to 0.1% and 0.3% in April and May 2010, respectively. Over June to August 2010, prices fell by 0.1% in each month, before marginal rises of 0.1% and 0.2% experienced in September and October.

47. Year-on-year inflation in 2010 remained in single digit, with a maximum of 6.1% recorded in May 2010. Negative inflation of -4.8% and -0.7% was experienced in January and February, respectively. From June 2010, inflation took a generally downward trend, registering 3.6% in October.



48. During the year, major inflation drivers were alcoholic beverages, and such non-tradable services as housing, water, electricity, health and education.

49. The high and sticky tariff levels of the above key non-tradable services have undermined the competitiveness of local production, thereby, putting pressure on the current account balance through higher growth of imports vis-à-vis that of exports.

50. In the outlook, however, overall inflation is expected to be contained within single digit levels, ending the year at a projected 4.8%.

REAL SECTOR

51. Mr Speaker Sir, implementation of credible economic policies, anchored on the continued use of multiple currencies, fiscal prudence through cash budgeting, and the liberalised business environment, all served to sustain economic stability and growth in 2010,

notwithstanding financing and power supply challenges facing the productive sectors.

52. Economic growth is, therefore, expected to increase to 8.1% in 2010 from 5.7% in 2009. The stronger performances are in mining and quarrying output, up 47%, and agriculture, 33.9%.

Real GDP Growth 2008-2011

GDP by Sector (%)	2008	2009	2010 Est.
Real GDP	-14.8	5.7	8.1
Agriculture, hunting and fishing	-39.3	14.9	33.9
Mining and quarrying	-33.4	8.5	47
Manufacturing	-17.1	10.2	2.7
Electricity and water	-13.6	1.9	1.5
Construction	-8.5	2.1	1.5
Finance and insurance	-27.9	4.5	0.5
Real estate	-36.4	2	0.9
Distribution, hotels and restaurants	2.8	6.5	0.5
Transport and communication	5.4	**2.2**	**0.1**

Source: CSO, MOF

53. Manufacturing growth in 2010 remains modest at an estimated 2.7%, highlighting major challenges necessitating support for reversal of the de-industrialisation experienced over the past decade.

54. Growth in other sectors is, however, subdued, with 1.5% in construction, and 0.5% in distribution, hotels and restaurants. Growth in the finance and insurance industry during 2010 is also estimated at 0.5%, while the transport and communications industry is projected at 0.1%.

55. Also notable is the increasing contribution to GDP of service sectors. Most notably, the share of transport and communication which was 8% in 2000 had grown to 15.2% by 2009.

Sectoral Contribution to GDP

INDUSTRY	2009 US$	CONTRIBUTIONS %
Agriculture	873,349,000	15.5
Mining	227,216,000	4.9
Manufacturing	825,538,000	14.7
Electricity and Water	275,789,000	4.9
Construction	32,624,000	0.6
Finance and Insurance	221,991,000	3.9
Real Estate	109,986,000	2.0
Tourism	615,837,000	11.0
Transport and Communication	853,796,000	15.2
Public Administration	222,609,000	4.0
Education	163,751,000	2.9
Health	70,137,000	1.2
Domestic Services	103,118,000	1.8
Other Services	241,075,000	4.3
GDP at Market Prices	**5,623,217,000**	**100**

Agriculture

56. Mr Speaker Sir, the strong estimated 33.9% growth in agriculture during 2010 is driven by maize, 34%; tobacco, 110%; sugar, 35%; and cotton, 23%.

Selected Agricultural Commodities

	2008 Actual	2009 Actual	2010 Est.	2011 Proj.
Tobacco (million kgs)	56	59	123	150
Maize (million tons)	575	1.24	1.3	1.5
Cotton (million tons)	226	211	260	300
Wheat (000 tons)	34	48	20	50
Sugar (000 tons)	298	259	350	400
Growth Rate %	**-17.4**	**21.2**	**33.9**	**19.3**

Support for Agriculture

57. Government support to the agriculture sector amounted to US$122.2 million as at 30 September 2010.

58. These resources went towards:

- the completion of the 2009/10 summer cropping season, US$40 million;
- 2010 Winter Wheat Production Programme, US$11.7 million;
- procurement of grain for the strategic reserve, US$55.2 million;
- irrigation infrastructure rehabilitation, US$830 000;
- capitalisation of Agribank, US$10 million; and
- the GMB, US$5.3 million.

59. The US$5.3 million disbursed to the GMB went towards silo rehabilitation, maintenance and rehabilitation of weigh-bridges and stacker machines, as well as restructuring of GMB manning levels through voluntary retrenchments.

Grain Production

Maize

60. Mr Speaker Sir, maize production in 2010 improved from 1.2 million tons of 2009 to 1.3 million tons. This was largely underpinned by the higher hectarage of 1.8 million compared to last year’s 1.5 million, as average maize yields fell from 0.8 tons to 0.7 tons per hectare owing to late rains and drought in the southern Provinces.

61. Government inputs support, complemented by cooperating partners under the coordination of the Food and Agriculture Organisation (FAO), also enhanced maize production.

Strategic Grain Reserves

62. Mr Speaker Sir, farmers delivered 220 910 tons of maize as of 19 November 2010 out of an anticipated GMB intake of 300 000 tons.

63. Given the very low levels of stocks in the Strategic Grain Reserve, the Budget is underwriting this grain procurement, including upfront storage and handling costs.

64. The value of the cumulative 220 910 tons delivered to the GMB as of 19 November 2010 towards the Strategic Grain Reserve was US$60.8 million.

Wheat

65. Over the years, wheat production has been decreasing owing to declining hectarage, funding challenges and unreliable power supply.

66. Under the 2010 winter wheat programme, Government secured a US$26.6 million inputs support scheme for farmers to access seeds and fertilizer at subsidised prices. This was targeting to put 45 000 hectares under wheat production.

67. Under this facility, input deliveries amounted to 835 tons of wheat seed and 22 500 tons of compound D fertilizer, with a combined value of US$11.7 million. Farmers also accessed top dressing fertilizer from the 2009/2010 summer Cropping Season stock carry-overs worth US$14.9 million.

68. Out of the targeted hectarage of 45 000 hectares, farmers only managed to put 12 000 hectares using inputs worth US$5 million. The balance of fertilizer was directed towards supporting the 2010/11 summer cropping programme. The low hectarage for the 2010 season was mainly on account of erratic power supply.

69. Anticipated wheat deliveries to the GMB in 2010 amount to 25 000 tons assuming an average yield of 2.5 tons per hectare. Already, farmers have started wheat deliveries to various GMB depots and 14 537 tons valued at US$5.8 million had been delivered by 19 November 2010.

70. This, if all procured towards build up of the Strategic Grain Reserves, would require Budget resources amounting to US$11.7 million.

Tobacco

71. In the 2009/10 season, about 65 000 hectares were put under tobacco, with 30 000 hectares under contract farming, 20 000 hectares on self financing and 15 000 hectares by communal farmers.

72. As a result, 123.5 million kgs were sold at an average price of US$2.88. This was against the 2010 mid-year estimates of around 93 million kgs and 58.6 million kgs realised in the 2008/09 season.

73. The increased production in 2010 benefitted from self financing from the previous year's tobacco proceeds of around US$161 million as well as additional bank and contract financing. The increased

hectarage, as more farmers joined tobacco farming, also enhanced tobacco output.

74. In 2011, tobacco output is projected to increase to 150 million kgs from about 90 000 hectares. Private financing will remain a major factor in tobacco farming. Contract farming support, which is projected to increase to 40 000 hectares, will be augmented by facilities from the banking sector as well as self financing from previous years' proceeds.

Cotton

75. Cotton production is estimated to reach 260 000 tons in 2010 from 211 000 tons in 2009. The promulgation of Statutory Instrument 142 of 2010, which protects both cotton farmers and cotton buyers, through prohibiting side marketing has built confidence in the sector. As a result, contractors who had withdrawn from the sector in 2009 returned, thereby, increasing the number of supported farmers.

76. In 2011, cotton production is projected to further increase to 300 000 tons against the backdrop of anticipated improvement in international cotton prices.

Sugar

77. Mr Speaker Sir, total sugar output is expected to increase to 350 000 tons in 2010 from 259 000 tons in 2009, largely due to the liberalised

business environment and the realisation of macro-economic stability.

78. Furthermore, support of €13.7 million for vulnerable small holder sugar producers this year by the European Union (EU) under its Programme of Accompanying Measures for Sugar Protocol Countries for 2010 is going to complement significant investments by the bigger producers.

79. Output in 2011/12 is anticipated to further increase to 450 000 tons, with most of this coming from Triangle Sugar's Hippo Valley Estates where targeted sugar production growth is set to raise output to 330 000 – 350 000 tons.

80. Already, the crush rate at Hippo Valley mills has since increased closer to capacity as the second refurbished line was also brought into operation.

81. Further re-establishment and rehabilitation of infrastructure in existing cane production areas should return the sugar industry to its former peak levels of production of 600 000 tons per year.

Dairy

82. Mr Speaker Sir, the ongoing restocking programme aimed at increasing the national milking herd, coupled with growing expertise in dairy milk production by indigenous farmers, is beginning to have a positive impact on raw milk production.

83. There is still, however, a long way to go as the estimated growth in milk production will only see output rise from 40 million litres realised in 2009 to 45 million in 2010. This is against national demand of 96 million litres and an installed capacity of 350 million litres.

Irrigation Development

84. Mr Speaker Sir, lack of fiscal space has limited our capacity to intervene meaningfully towards supporting our farmers take advantage of our water bodies through irrigation development.

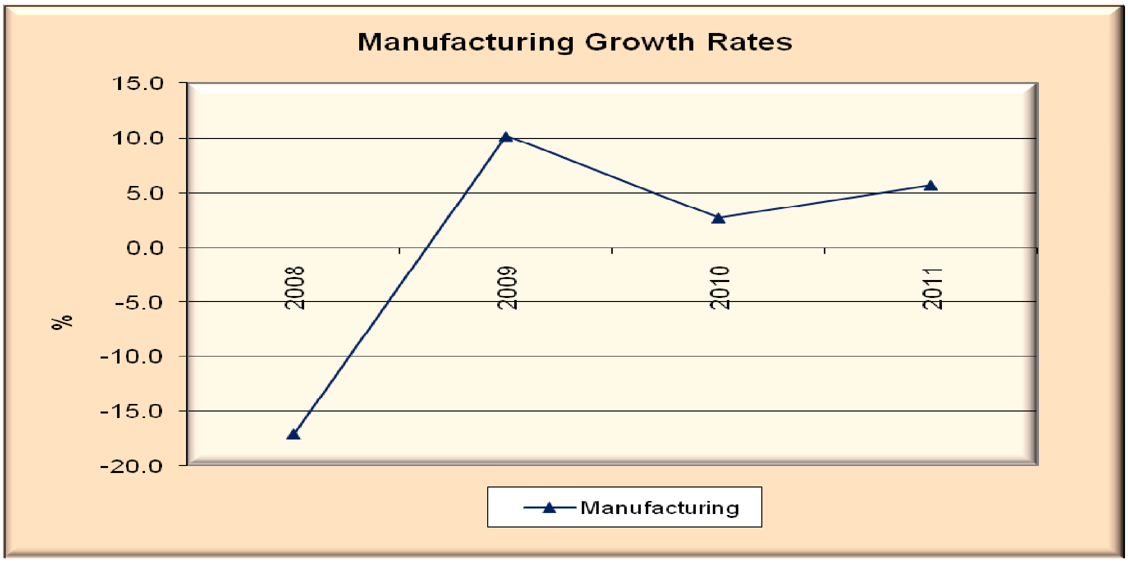
85. Hence, during 2010 we have only been able to repair few communal irrigation schemes that had become non-functional due to breakdown of pumps, water conveyancing systems and infield canals.

86. Given Budget constraints, the major challenge remains that of getting beneficiaries to also participate by re-investing part of their agricultural income proceeds towards maintenance of irrigation schemes, including payment of electricity bills.

Manufacturing Sector

87. Mr Speaker Sir, erratic power supply and absence of medium to long-term capital continue to adversely impact on domestic industrial cost of production, compromising competitiveness of the manufacturing industry and limiting growth to the anticipated modest 2.7% in 2010.

88. This has slowed down recovery in industrial capacity utilisation across most sub-sectors. Notable gains have, however, been registered in beverages and tobacco.



89. Growth in other sub-sectors, which included foodstuffs, 0.5%; textiles and ginning, 0.4%; chemical and petroleum products, 0.3%; paper, printing and publishing, 0.2%; and other manufactured goods, 0.1%; remained subdued.

Sub-Sector Capacity Utilisation

SECTORS	CAPACITY UTILISATION		
	2009 Act	2010 Est	2011 Proj
Food Stuffs	39	42	45
Drinks, Tobacco & Beverages	50	59	62
Textiles & Ginning	20	21	21
Clothing & Footwear	58	55	51
Wood & Furniture	82	83	85
Paper, Printing & Publishing	41	43	43
Chemical & Petroleum Products	31	31	32
Non-Metallic Mineral Products	21	21	23
Metals & Metal Products	11	10	9
Transport Equipment	16	14	14
Other Manufactured Goods	13	14	16
Overall Growth	**10.2**	**2.7**	**5.7**

Source: CZI, ZIMSTATS, MOF

90. In some sub-sectors such as clothing and footwear, metals and metal products, and transport equipment, output is estimated to have declined by -0.4%, -1.4% and -0.4%, respectively.

Mining

91. Mr Speaker Sir, mining has been the fastest growing sector since 2009, with growth up from 33.3 % in 2009 to an estimated 47% in 2010.

92. The major gains in mining are against the background of firm international commodity prices, as productivity in the mining sector remains weighed down by erratic power supply.

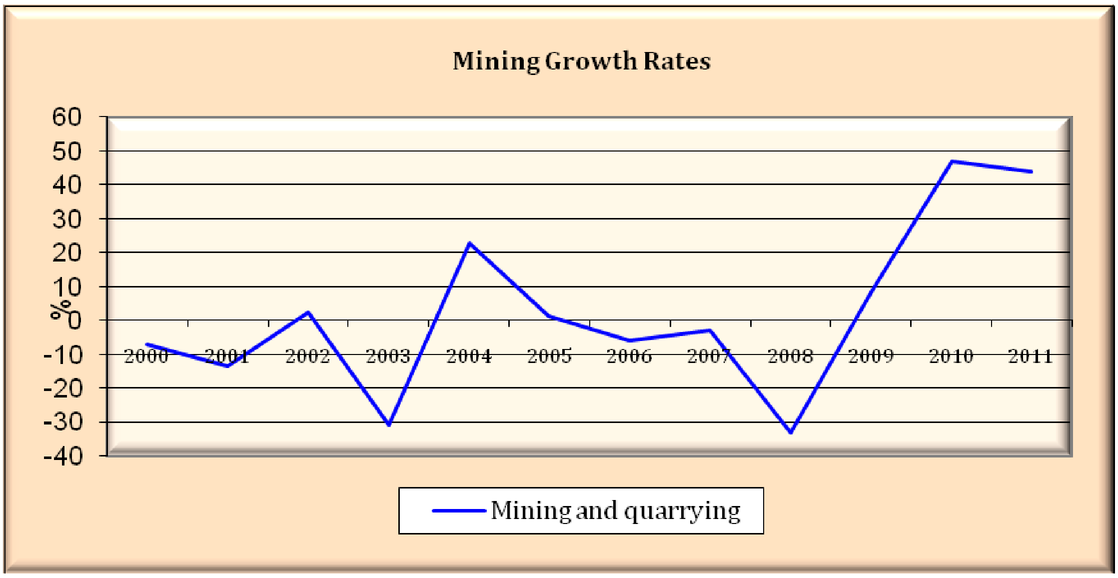
93. Increasing confidence in the sector has also benefitted investment in expansion programmes and recapitalisation of mining operations.

Main Products 000s tons

	2008	2009	Jan	Feb	March	April	May	June	July	2010 Est.	2011 Proj.
Gold/t	3.58	4.97	0.61	0.56	0.76	0.63	0.69	0.77	0.84	8.00	13.00
Nickel/t	6.35	4.86	0.55	0.48	0.53	0.48	0.52	0.51	0.54	6.20	7.68
Coal/t	1701.60	1606.32	205.95	198.33	188.51	203.13	173.79	168.01	160.00	2000.00	3000.00
Asbestos/t	11.49	7.80	0.86	0.63	0.36	0.10	0.04	0.04	0.00	2.02	2.10
Chrome/t	442.58	201.00	40.70	39.29	39.88	41.55	50.56	48.29	42.79	500.00	700.00
Platinum/t	5.50	6.85	0.79	0.68	0.75	0.69	0.72	0.70	0.74	9.00	12.00

Source: Ministry of Mines, Chamber of Mines.

94. Individual commodity developments reflect that firming commodity prices had resulted in increased output of gold, up 16.5%; platinum, 8.7%; chrome, 6%; and diamonds, 9%.



95. Significant realisation of the potential of the country's mining industry will require up to US$3-5 billion investment towards the recapitalisation of mining houses over the next 3-5 years broken down as follows:

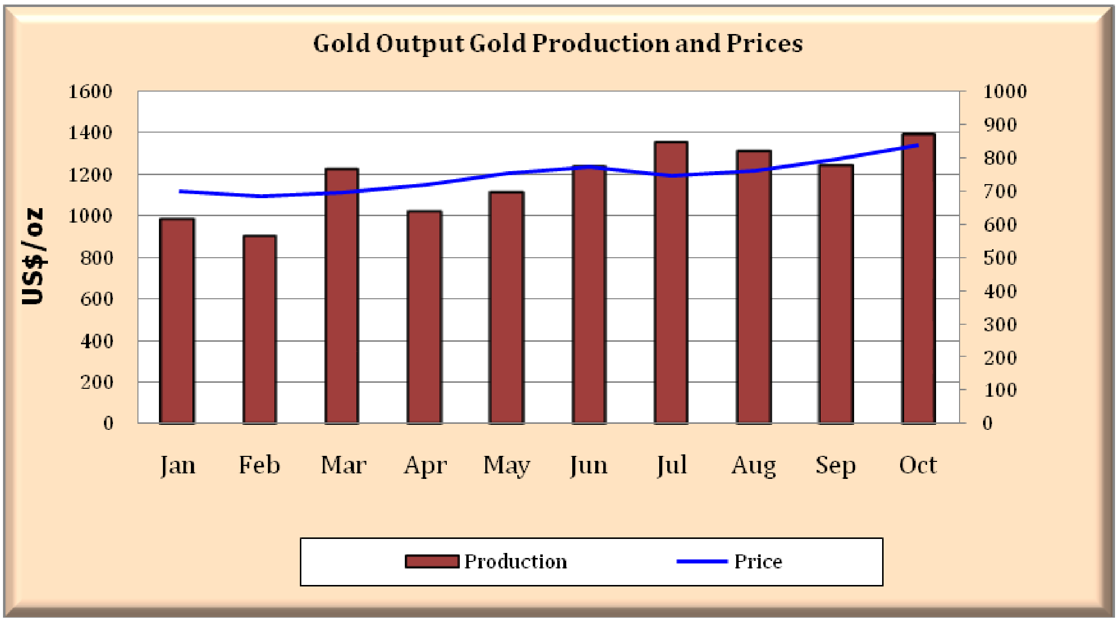
Mineral	Requirements US$ billion
Gold	1.000
Platinum	1.200
Ferrochrome	0.250
Nickel	0.110
Coal	0.280
Diamonds	0.300

Gold

96. Gold is now the second major contributor in the mining sector after platinum. Cumulative output to September 2010 stood at 6 284 kgs, translating into a monthly average of 689 kgs. Output to end of year is expected to reach 8 000 kgs.

97. In 2011, gold output is projected to reach 13 000 kgs. This is underpinned by the continued firming up of international prices, and major expansion programmes by most mining houses. These are estimated to cost in excess of over US$100 million.

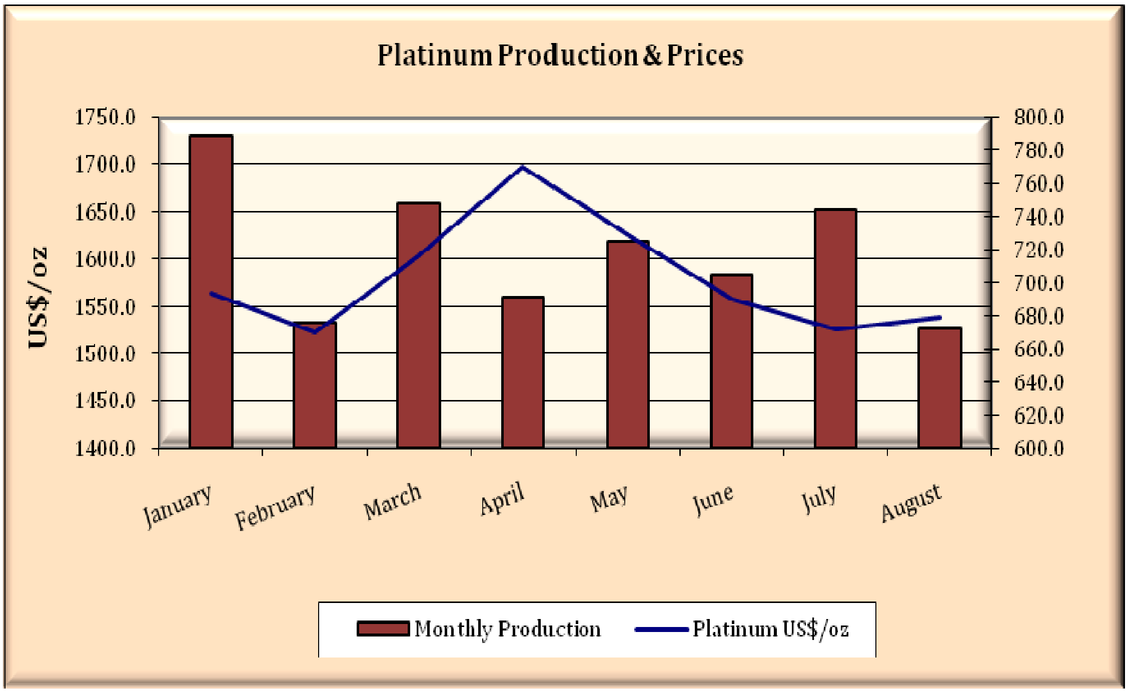
98. Increased power generation at ZESA, coupled with supply from independent power producers, should benefit growth in gold production.



Platinum

99. Platinum accounts for 36% of total mineral production. Output to October 2010 stood at 5 077 kgs and is expected to reach 8 500 kgs by the end of the year, from 6 848 kgs in 2009. In 2011, output is projected to reach 12 000 kgs.

100. This sustained growth in platinum production is mainly a result of investment expansion programmes, mostly at Unki and Mimosa mines.



Chrome

101. Chrome production is estimated to increase significantly by 148% from 201 000 tons in 2009 to 500 000 tons in 2010. Cumulative production to September 2010 stood at 303 052 tons.

102. Improved output is mainly on account of increased processing of chrome at both ZIMASCO and Zimbabwe Alloys. Introduction, during the Mid-Term Fiscal Policy Review, of tax dis-incentives against stripping of resources and shipping them out of the country in crushed raw form should benefit domestic value addition, preserving local jobs.

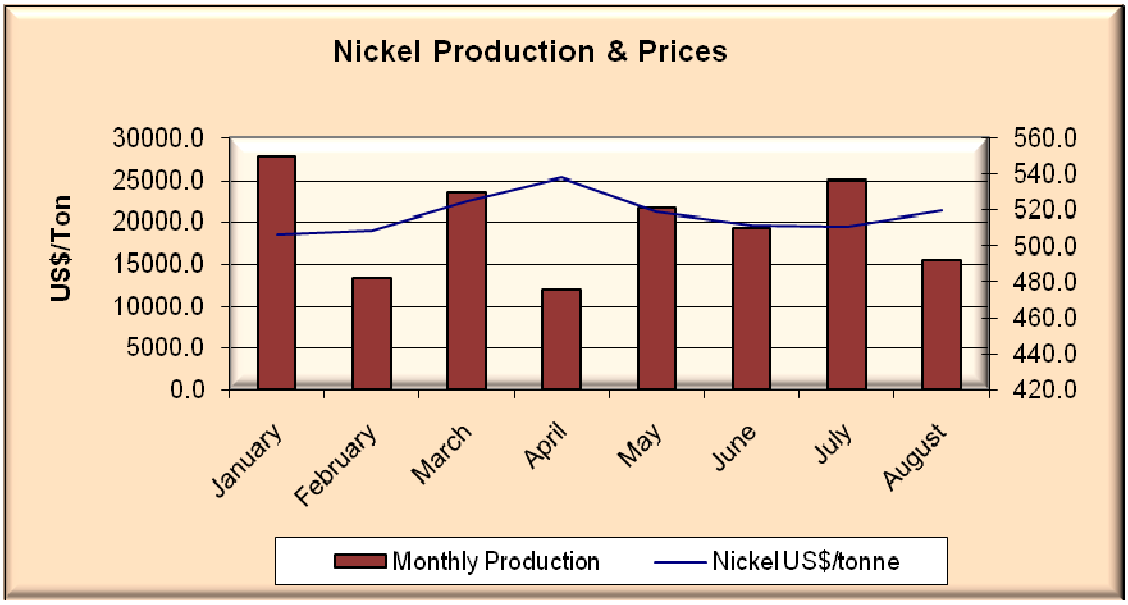
103. In the outlook, output is expected to further grow by 70% in 2011, responding to planned expansion programmes.

Nickel

104. Nickel production remains subdued, owing to non-resumption of production at Bindura Nickel, which has remained under care and maintenance since 2008. Hence, data on production of nickel reflects output arising as a by-product in platinum production.

105. Output is, therefore, estimated at 6 120 tons in 2010, from 4 857 tons in 2009, in line with increased platinum production.

106. With the anticipated resumption of operations at Bindura Nickel Mine in the first quarter of 2011, output is set to further increase to 7 500 tons in 2011.



Diamonds

107. Mr Speaker Sir, our diamond industry has huge potential. The coming on board of mining at Chiadzwa diamond fields, where in 2010 the bulk of diamond production of about 2.7 million carats is expected from, has drastically increased the country's diamonds production.

108. During 2010, River Ranch and Murowa account for the remaining 300 000 carats. Diamond output in 2011 is expected to further increase to 4 million carats.

109. Hence, it is urgent that we deal with the issues of leakages, arbitrage and compliance with international standards as well as the contested issues of certification within the Kimberly Process Certification Scheme.

110. This includes greater clarity over those awarded contracts, with reports of serious lack of transparency on the part of one of the diamond mines, Canadile, resulting in criminal prosecutions.

111. Mr Speaker Sir, clearly a number of issues are yet to be addressed, as also observed by the Parliamentary Portfolio Committee on Mines and Energy.

112. These include the issue of certification, the legal process of awarding concessions, beneficiation, policing and anti-smuggling standards, environmental concerns, compensation and re-location of affected mining communities.

113. The regulatory framework, the Inter-Generational Fund, geological surveys and monetary quantification of Zimbabwe's deposits also all need to be finalised.

Diamond Revenues

114. Mr Speaker Sir, with regards to diamond revenues, I have already alluded to the fact that these will not necessarily be the panacea to all the challenges bedevilling our economy.

115. Indeed, if we do not tread cautiously and transparently, this natural resource endowment might detract us off track the necessary but painful initiatives we need to embrace. We also need to manage expectations with regards to the scope and extent of diamond revenue realisations.

116. Whatever is generated out of our diamonds, however, should be of benefit to each and every one of our ordinary Zimbabweans.

117. The current opaqueness with regards to the mining of diamonds and resultant realisations can only serve to raise false expectations and public alarm over the extent of the perceived leakages.

118. Mr Speaker Sir, Honourable Members will be aware that following the KPCS's approval to begin selling diamonds from Chiadzwa, three diamond sales were conducted.

119. The first and second sales conducted in August and September 2010 generated gross proceeds of US$56 476 194.40 and US$29 914 788.66, respectively, bringing the total to US$85 290 124.70.

120. Out of this amount, accruals to Government were US$30 006 630.85 and US$11 932 557.79, respectively.

121. The US$30 006 630.85 paid directly, and indirectly through ZIMRA, to Central Government from the first sale was made up of:

- Dividend payment, US$19 060 827.26;
- Non-resident shareholders' tax on dividends, US$1 906 082.73;
- Depletion fee, US$2 558 920.44;
- Management fee, US$264 889.29;
- Royalties, US$5 647 619.44;
- MMCZ commission, US$494 166.70; and
- VAT on commission, US$74 125.01.

122. However, out of the amount due to Government of US$11 932 557.79 from the second sale, only US$8 030 151.67 was remitted to Central Government as dividend payment.

123. Mr Speaker Sir, I have, therefore, requested that from the second auction of diamonds, payments of Royalties, US$2 881 393.03; Commission, US$252 121.89; and VAT on commission, US$37 818.28; made to MMCZ should be remitted to Treasury.

124. Similarly, with the payments for resource depletion of US$1 201 197.57, management fees, US$239 498.95; made to ZMDC. The

balance of US$983 194.80 was remitted to ZIMRA towards the payment of non resident shareholders' tax, US$803 015.17 and VAT on depletion fee, US$180 179.63.

125. In order to clarify revenue sharing arrangements, from subsequent diamond sales, Government is entitled to dividend payments and resource depletion fees paid directly to Treasury whilst payment to ZIMRA will constitute royalties, VAT, non resident shareholders' tax. The large magnitude of resources retained by MMCZ as commission should also accrue to Central Government as MMCZ funding should be a function of a Government approved Budget.

126. I have ring fenced these resources under the Infrastructure Sinking Fund for appropriation transparently through the Parliament approved Budget Framework for the benefit of all Zimbabweans.

127. Mr Speaker Sir, Treasury still awaits revenue receipts from the third diamond sale for incorporation into the Consolidated Revenue Fund.

Asbestos

128. Mr Speaker Sir, production of asbestos at Shabanie and Mashaba Mines continues to decline, falling significantly from 7 800 tons realised in 2009 to an estimated 2 000 tons in 2010.

129. This is against the background of never ending legal processes that have exacerbated viability challenges associated with severe shortage of working capital, resulting in cessation of mining operations and mine closure.

130. The ripple effects of the closure of Shabanie Mine are being felt throughout the construction industry and, surely, leadership is required to resolve the current disastrous impasse.

Coal

131. Coal production has been on an incremental path from 2009 when output was 1.6 million tons. Output is expected to increase to 2 million tons in 2010 and projected at 3 million tons in 2011.

132. Investments by Hwange Colliery in the dragline and the coal screening machine, complemented by viable coal pricing, have allowed for increased coal production.

133. As a way of reducing costs of production, Hwange Colliery has also begun a de-watering programme on some of the disused mines with approximate reserves of 40 million tons.

Tourism

134. Mr Speaker Sir, this year's tourism growth projections have been revised downwards to an estimated 0.5%, reflecting capitalisation constraints facing the sector, limited benefits from the 2010 World Cup and slow recovery in the global economy.

135. Furthermore, slower adoption of advanced ICT banking systems and international debit and credit card facilities by most of our tourist service providers has had downward effects on tourism inflows.

136. A number of marketing initiatives have been initiated, particularly by the Ministry of Tourism and Hospitality Industry. Some of these are beginning to bear fruit.

137. Tourist arrivals are expected to increase to 2.2 million this year, from 2 million in 2009. Reflecting this, tourism receipts are estimated to realise growth of 47% to US$770 million, from US$523 million in 2009.

138. However, bed occupancy levels are anticipated to have risen by only 2% to 37% by end of 2010.

139. The leading source market for tourist arrivals remained Africa, at 89.7%, with the highest arrivals from South Africa and Botswana, constituting 72% and 6% of arrivals, respectively. Other markets account for the remainder, with Europe at 4%, America, 2.8%; and Asia contributing 1.8%.

Tourism Statistics

	2008	2009	2010 Est.	2011 Proj
Arrivals	1 955 954	2 017 262	2 230 000	2 500 000
Receipts (US$ m)	294	523	770	850
Average Bed Occupancy Rate	33%	35%	37%	39%
Average Room Occupancy Rate	41%	45%	55%	56%

140. Tourism is anticipated to grow by 6% in 2011, benefitting from the continued recovery in both global and domestic economic activity, and also on the back of targeted marketing strategies.

141. Planned investments by the country's leading hotels in 2011, estimated at more than US$50 million, will ensure that our tourism infrastructural facilities remain competitive.

Indicators for SADC Member Countries

142. Mr Speaker Sir, the above developments in inflation and the productive sectors confirm the progress we are beginning to make with regards to comparative economic developments in the region.

143. Below, we reproduce comparative statistics for SADC and some Eastern African countries:

Economic Indicators for SADC Member Countries: 2009

	GDP Growth	GDP (US$bill)	GDP per capita	Revenue US$ bill	Expenditure US$ bill	Investment % of GDP	Population below PDL	Inflation Rates	Public Debt as % of GDP
Zimbabwe	4.70%	5.179	432	1.04	1.361	4%		-7.70%	150%
Angola	-0.60%	70.53	8,900	30.82	27.91	15.60%	40.50%	13.10%	16.80%
Botswana	-5.20%	10.94	13,100	2.675	3.868	26.70%	30.30%	7.30%	17.90%
DRC	2.70%	11.23	300	0.7	2			16.70%	
Lesotho	-2%	1.643	1,700	0.563	0.675	39.60%	49%	8.50%	
Malawi	5.90%	4.967	900	1.215	1.325	11.60%	53%	8.50%	58%
Mauritius	2.10%	9.264	12,400	1.857	2.19	23.30%	8%	3.40%	58.30%
Mozambique	4.30%	9.767	900	2.434	3.171	23%	70%	3.50%	
Namibia	0.70%	9.145	6,400	2.759	2.913	22.70%	55.80%	8.80%	15.10%
Swaziland	-0.40%	2.963	4,400	0.592	0.695	21.80%	69%	8.50%	
Tanzania	4.90%	22.42	1,400	3.78	4.693	18.10%	36%	11.60%	24.80%
Zambia	4.50%	12.44	1,500	2.514	2.86	19.50%	86%	13.50%	31.50%
South Africa	-1.80%	280.6	10,100	74.92	86.26	20.60%	50%	7.20%	35.70%

Average Tax Revenue in Selected Sub-Saharan Africa Countries (as % GDP)

	2007	2008	2009	2010
Zimbabwe	4	3.3	17.3	30
South Africa	28.4	29.4	27.5	27.2
Kenya	22	22.1	22.8	23
Malawi	19.4	20.9	22.3	25.3
Zambia	18.4	18.6	16	17.2
Mozambique	15.9	16	17.8	18.8
Tanzania	17.4	17.3	17	17.7
Nigeria	28.4	32.8	19.9	25.8
Ghana	22.7	23	22.7	25.5
Ethiopia	12.7	12	12	13.4
Rwanda	12.3	14.9	12.8	12.8
Uganda	12.6	12.8	12.5	12.7
Sub-Saharan Africa	26	27.8	23	24.8

Financial Sector

144. Mr Speaker Sir, the prevailing macro-economic stability and the improving economic growth continue to support enhanced performance and health of the financial sector.

145. As at 30 September 2010, sixteen out of twenty four banking institutions (excluding the POSB) were in compliance with the minimum paid-up capital requirements.

146. Cognisant of the recapitalisation challenges at some of the banking institutions, the Reserve Bank extended the deadline for compliance with minimum capital requirements to end of December 2010. This should allow non-complying institutions to undertake various capital raising initiatives, including mergers, rights issues and engagement of foreign equity partners.

147. Most banking institutions' balance sheets showed resilience to shocks with respect to all the risk assessment factors, which include credit, sovereign, foreign exchange, interest rate and liquidity risks.

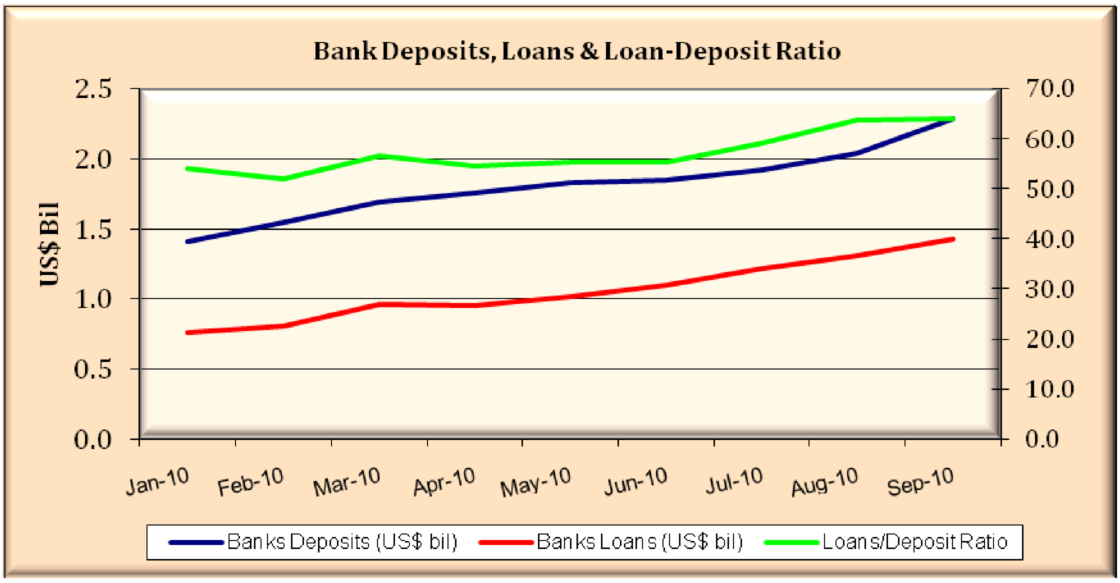
148. Against this background, bank deposits continue to grow by a monthly average of US$82 million from US$1.3 billion recorded in January 2010 to reach US$2.3 billion in September 2010, signifying improved confidence in the sector.

149. The short term nature of deposits, coupled with lack of financial instruments on the money market, makes it necessary that measures be taken to get our banks to begin promoting longer term deposits, including savings deposit products.

150. The increase in bank deposits, coupled with foreign short-term capital inflows, has strengthened the intermediation capacity of the financial sector, with loans and advances increasing from US$0.76 billion in January to US$1.42 billion by September 2010.

151. Consequently, the loan-deposit ratio grew from 52.4% in January 2010, to 62.4% in September 2010, against regional and international thresholds of over 75%.

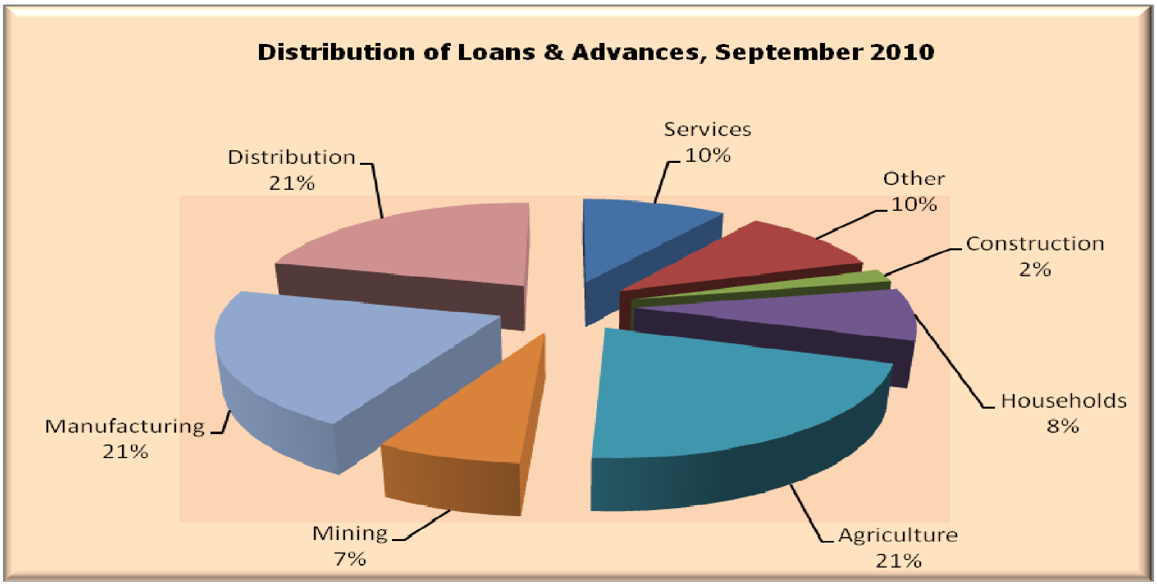
Banking Sector Deposits and Loans



Source RBZ

152. The sectoral breakdown of loans and advances shows that agriculture, distribution and manufacturing sectors each received 21%. This was followed by services, 10%; households, 8%; and the mining sector which received 7%.

153. The average tenor of the lending, though improved from between 30-90 days in January to current levels of 180 days, still does not meet long term borrowing requirements for capital expenditure.



Source RBZ

154. However, bank spreads still remain high, with average maximum annualised lending rates unmoved at margins above 20%, against deposit rates which, in most cases, average 0%.

155. Mr Speaker Sir, it is, therefore, necessary that banks institute measures to address their high operational costs, especially over

employee benefits and occupancy costs, which are often presented as a basis for failure to reward depositors.

National Payment System

156. Transactional activity remained stable in all payment streams, characterised by progressive increases in both values and volumes.

157. A cumulative total of 1.3 million transactions valued at US$16.7 billion were processed through the RTGS system from January to October 2010. This represented a monthly average increase of 6% and 8% for volumes and values, respectively.

Cheque Transactions

158. The inter-bank cheque system recorded a total of 138 000 cheques amounting to US$34 million, processed through the Harare and Bulawayo Clearing Houses from January to October 2010. Cheque volumes increased at a monthly average of 12%, while values rose by 11% during the same period.

159. The current limits on the value of cheques are limiting greater usage of this payment instrument. It will, therefore, be necessary that the Reserve Bank institute measures to review some of the limits on the value of cheques.

Card Transactions

160. A cumulative total of 2 million card transactions valued at US$210 million were undertaken for the period January to September 2010.

Of this amount, ATMs constituted 84%, while Point of Sale (POS) represented 16%.

161. Nonetheless, card values increased by 54% from US$30 million in August 2010 to US$46 million in September 2010, whilst volumes increased by 2% from 279 000 to 285 000, during the same period.

Mobile and Internet Transactions

162. A cumulative 373 000 mobile and internet transactions valued at US$165 million were processed from January to September 2010.

Lines of Credit

163. Mr Speaker Sir, the fruits of our efforts to engage cooperating partners' financiers to unlock lines of credit have not been consistent with the challenges faced by our productive sectors.

164. Furthermore, disbursements from approved Facilities continued to perform below expectations, increasing marginally from US$205 million in July 2010 to US$273.6 million in September 2010, against commitments of US$735 million.

165. Disbursements from operational facilities were channelled to agriculture, which at US$141 million accounts for 52% of total disbursements. This is followed by facilities to the financial sector, US$60.9 million; manufacturing, US$20.6 million; and mining,

US$20.3 million. Facilities in support of the other sectors amounted to US$30.6 million.

166. The Africa Export and Import Bank (Afreximbank) remained the major financier, with approved facilities amounting to US$299.6 million, out of which disbursements were US$156 million.

Zimbabwe Economic Trade Revival Facility (ZETREF)

167. Honourable Members will recall that on 30 August 2010 Government launched, in conjunction with Afreximbank, the Zimbabwe Economic Trade Revival Facility.

168. This revolving Facility supports the productive sectors across all Provinces access equitably six months to three years medium-term capital. The Facility is available at interest rates of LIBOR + 5%, with draw-downs in two tranches.

169. The first tranche caters for the acquisition of equipment and capital goods for use in the enhancement of output and quality of goods and services, while the second tranche is for the purchase of raw materials, spare parts as well as meeting agreed operating costs.

170. Mr Speaker Sir, the facility is now operational and interested companies may lodge their applications through their banks to the Local Administrative Agent, Interfin Bank.

171. To date, US$25 million has been allocated to four banks namely, BancABC, US$5 million; NMB, US$5 million; TN Banking Corporation,

US$5 million; and FBC Banking Corporation, US$10 million; for immediate disbursement.

172. Meanwhile, efforts are being made by both Government and the Afreximbank to have the full US$70 million processed and disbursed expeditiously.

173. To sustain the revolving nature of the Facility, I am, therefore, urging beneficiaries to make timeous repayments. This will allow for accommodation of more companies requiring loan capital.

Money Market Instruments

174. Mr Speaker Sir, Treasury remains ready to facilitate development of money market instruments, also targeting the financing of the various sectors of our economy.

175. To make these instruments attractive to investors, Government will grant them special features, such as prescribed asset status, tax exemptions and liquid asset status.

176. In this regard, the market has seen such institutions as Agribank and ZB Bank launch US$10 million and US$30 million 360 day bonds in support of the financing of tobacco, livestock production, as well as other 2010/11 summer cropping season requirements.

177. The re-activation of commercial paper, notably bankers' acceptances and paper for institutional investors, will stimulate activity in the money market, provide depth for market trading and increased lending to the private sector.

Lender of Last Resort Function of the Reserve Bank

178. Mr. Speaker Sir, you will recall that in my Mid – Year Fiscal Policy Review Statement of 14 July 2010, I advised that Treasury will ring-fence some resources to enable the Reserve Bank to play its Lender of Last Resort function.

179. Consequently, an initial amount of US$7 million was advanced on 28 October 2010 to the Reserve Bank for this function.

180. This amount, although small relative to the required resources, should stimulate inter-bank activity and facilitate increased advances of credit by banks. Furthermore, the function should result in reduced cost of borrowing through risk reduction associated with this monetary policy tool.

181. Treasury will extend additional resources in line with its capacity and upon satisfactory utilisation of this initial tranche. I am, therefore, urging the Reserve Bank to utilise the resources in a manner that will ensure restoration of confidence in the banking sector.

Zimbabwe Stock Exchange

182. Mr Speaker Sir, the revival of economic activity, coupled with the modest improvements in industrial capacity utilisation, have not significantly spurred activity on the Zimbabwe Stock Exchange.

183. Rather, negative investor perceptions coupled with persistent liquidity challenges, continued to subdue trading on the Zimbabwe Stock Exchange over the period to August 2010.

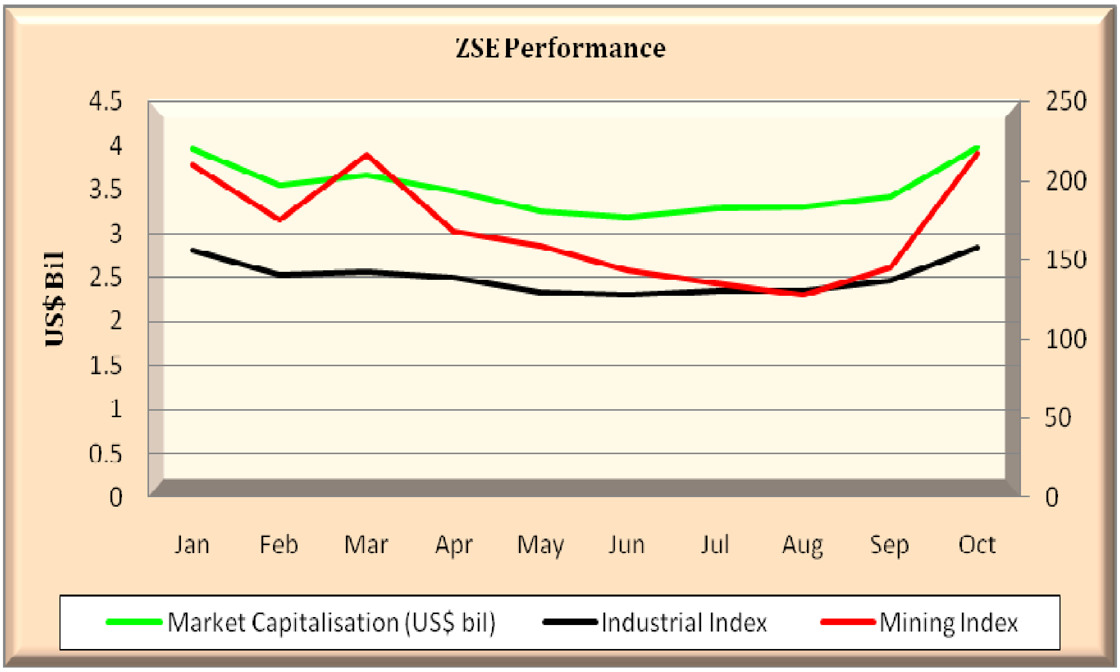
184. Against this background, the daily average number of shares traded declined from 14.5 million in January to 12.8 million shares by October 2010.

185. The key Industrial Index fell from 156.52 in January 2010 to 137.04 by September, while the Mining Index dropped from 209.81 to 145.65.

186. Gains were, however, realised in October when trading on the ZSE picked up on the back of profit taking towards the end of the year and also in response to better economic performance and positive outlook.

187. Foreign investors maintained the lead, with their participation increasing from an average of 20% in August 2010 to about 40% and 50% of total sales of shares by September and October, respectively.

188. This saw Industrials end October at 157.71 points while the Mining Index rose to 217.07, also against the background of firming world market metal prices. Consequently, market capitalisation, which had declined to US$3.4 billion by September from US$3.9 billion recorded in January 2010, has since recovered to US$3.98 billion at the end of October.



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Industrial Index	156.52	140.37	142.4	139.0	129.4	127.5	130.92	130.92	137.04	157.71
Mining Index	209.81	175.08	216.9	167.9	159.3	143.1	134.87	127.64	145.65	217.07
Market Capitalisation (US$ bil)	3.97	3.55	3.67	3.49	3.25	3.19	3.296	3.299	3.418	3.98

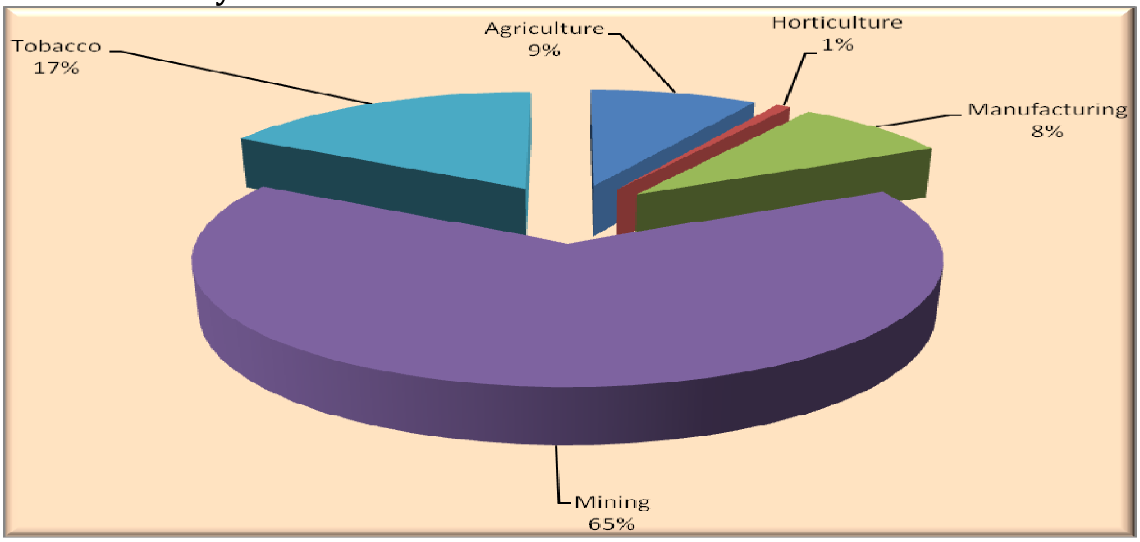
Source ZSE

189. Both the Industrial Index and the Mining Index are expected to remain on an upward trend to year end.

External Sector

190. Mr Speaker Sir, the latest balance of payments forecasts to year end show total exports growing by 25% in 2010, from US$2 billion in 2009 to US$2.5 billion. Projected mineral exports to year end of US$1.159 billion account for 46% of this, followed by agriculture, US$456.3 million; and manufactured exports, US$393.3 million.

Contribution by Sector: October 2010



191. Recovery in export performance was largely spurred by improved world commodity prices, phenomenally pushing up cumulative export shipments up to mid November 2010 to US$1.813 billion compared to US$1.061 billion over the same period in 2009.

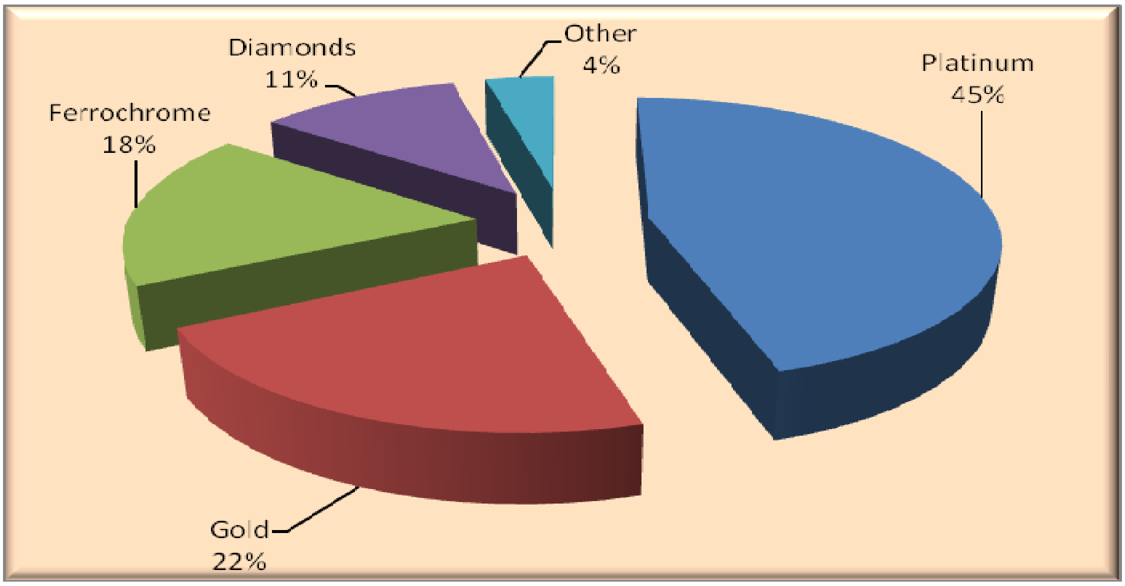
192. Improved availability of foreign exchange on the market for importation of inputs, raw materials and machinery, following the introduction of multiple currencies in February 2009 also benefitted domestic production for the export markets.

193. Global foreign currency receipts to 5 November 2010 amounted to US$2.285 billion. The corresponding receipts for last year were US$1.307 billion.

Mineral Exports

194. Major mineral exports underpinning recovery in export performance were platinum, US$596.2 million; gold, US$304.8 million; diamonds, US$126 million; nickel, US$52.2 million; among others.

Mineral Export Contributions as at 21 October 2010



195. The growth of mining exports of 88% also reflects increased new investments in the sector in response to firming international mineral prices.

196. In this regard, gold prices firmed up from US$970 per ounce in 2009 to US$1 362 per ounce in mid November 2010, while platinum prices also rose from US$1 000 per ounce in 2009 to US$1 654 per ounce.

197. With regards to diamonds, Mbada Diamonds exported a cumulative US$65.1 million by mid November 2010. Exports by Canadile Miners amounted to US$21.1 million and those by Marange Resources, US$17.4 million. Production at Murowa accounted for US$17.3 million in diamond exports, while River Ranch exported US$1.1 million.

Agricultural Exports

198. Tobacco continued to lead agricultural exports this year, accounting for US$333.9 million of total agricultural exports. Other key agricultural exports were sugar and horticulture, contributing 11% and 5%, respectively.

199. Overally, agricultural exports growth is estimated at 10.4% in 2010 and projected at 23.9% in 2011.

Manufactured Exports

200. The competitiveness of locally manufactured exports is being undermined by obsolete equipment, high costs of production related to power, labour, and working capital, among others.

201. Manufactured exports are, therefore, expected to further decline by 6.8% in 2010, following last year's fall of 5%, mainly reflecting a drop in both the price and output of ferro-alloy products which account for 33% of manufactured exports. However, pure manufactured exports grew by 4.5% in 2010.

Imports

202. Mr Speaker Sir, our economy continues to absorb a disproportionately large amount of imports of a finished nature, with the latest balance of payments projections showing total imports rising from US$3.2 billion in 2009 to US$3.6 billion in 2010.

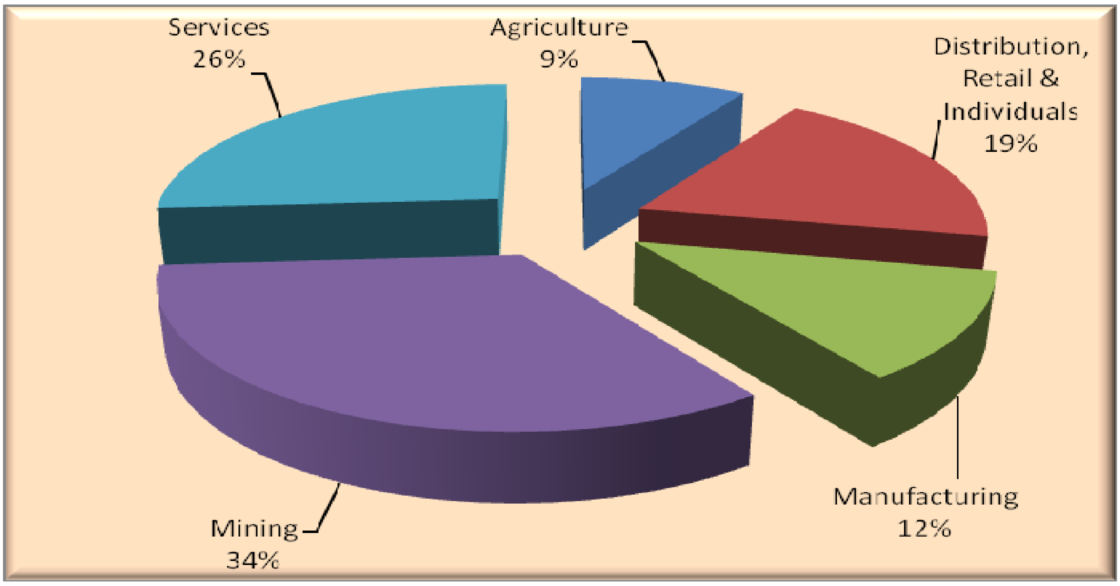
203. Accordingly, global import payments through the banking system to 5 November 2010 increased by 50% to US$1.960 billion from US$1.307 billion during the same period in 2009.

204. In terms of sectors, all sectors registered increases in import payments, except for the agricultural sector, which recorded decline of 2% to US$167.6 million.

205. Most notable is the sharp increase in foreign payments through the banking system by the retail and distribution sector, up US$288 million to US$398.4 million from last year.

206. This mainly reflects consumption goods for resale, as the country's dependency on imported goods remains high. Reversing this will require improved domestic capacity utilisation to allow for higher import substitution.

Import Payments by Sector as at 21 October 2010

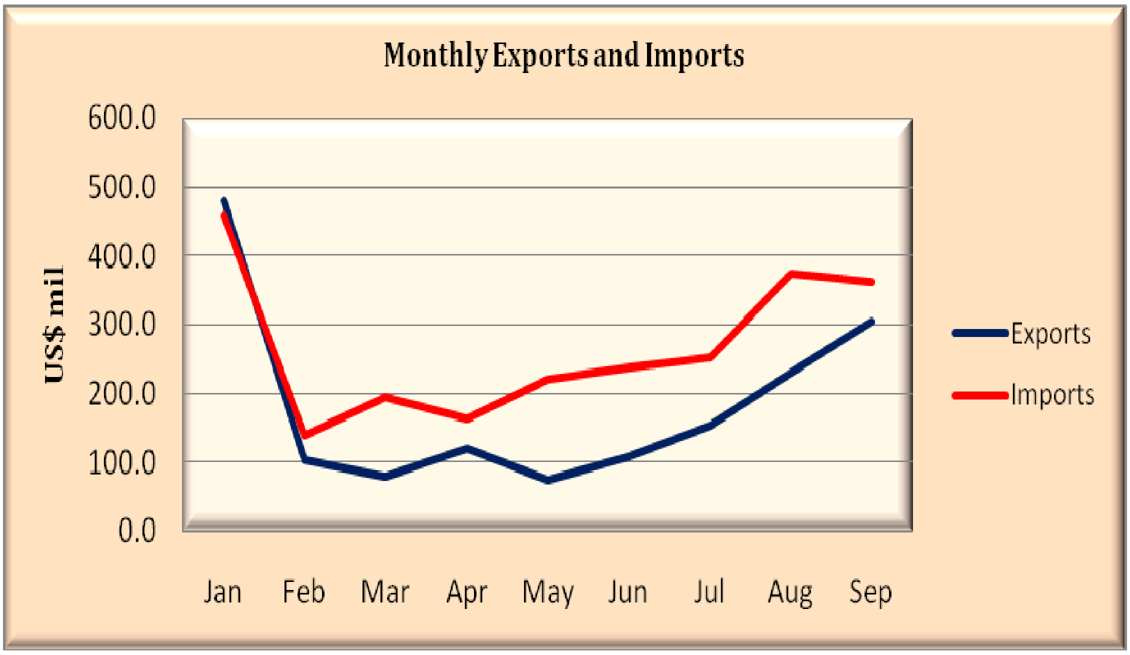


207. Growth in import payments through the banking system by the mining sector was US$231.2 million to US$623.2 million, as mining houses increased production to capitalise on firming metal prices.

208. Import payments through the banking system for the manufacturing sector totalled US$246.1 million. This represents an increase of US$107.9 million over last year's US$138.2 million.

209. Increased investments in ICTs continue to underpin the expansion in import payments for the services sector.

2010 Monthly Exports and Imports



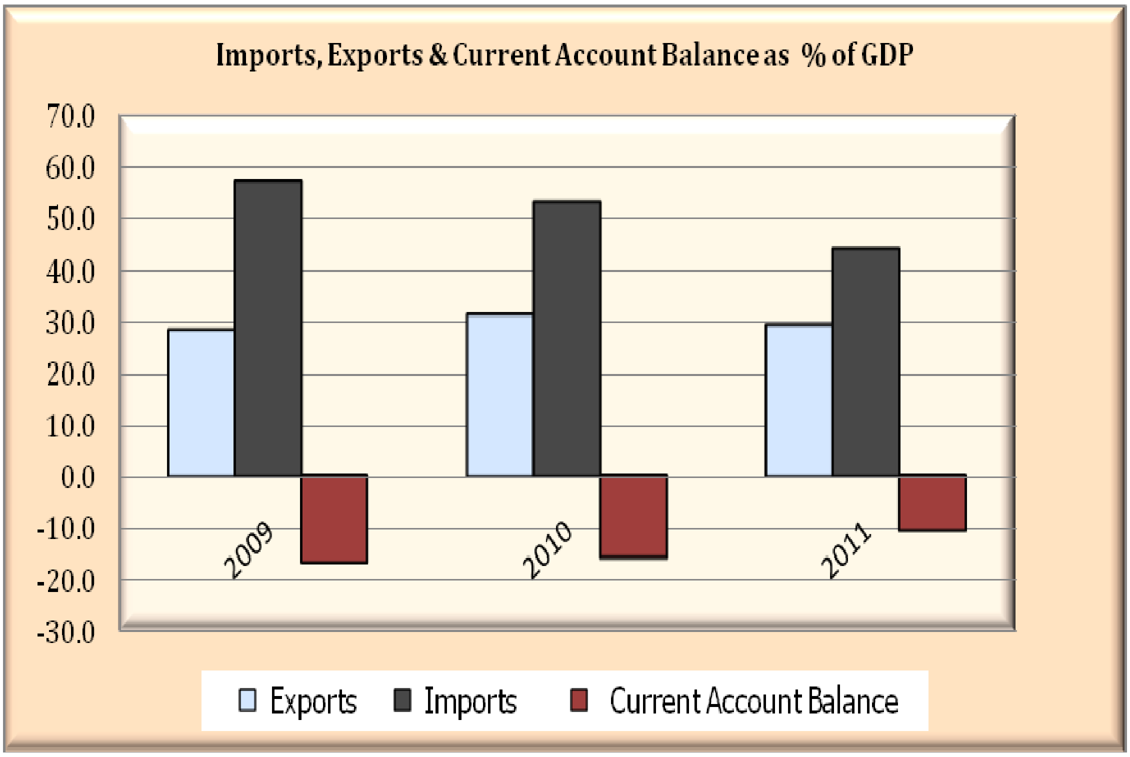
***Source*: ZIMSTAT, RBZ**

Note: Imports exclude imports of electricity

Current Account

210. The current account deficit is set to widen from US$0.927 billion in 2009 to US$1.041 billion in 2010 on account of increasing imports

and non-factor services' receipts against lower exports. Transfers in 2010 such as remittances were also on a slow down as a result of the effects of the global financial crisis.



Capital Account

211. The Capital Account is, however, set to improve from a deficit of US$556.5 million in 2009 to a surplus of US$578.5 million in 2010, reflecting improved inflows in portfolio investment and short-term capital.

212. The overall balance of payments deficit is accordingly projected to improve from a deficit of US$1.9 billion to that of US$462 million.

Balance of Payments, Trade Account and Financing

Balance of Payments	2007	2008	2009 Est.	2010 Proj	2011 Proj
	(millions US$)				
Current Account (excl.official transfers)	-243	-779	-927.8	-1041.1	-858.6
Trade Balance	*-294*	*-972*	*-1621.8*	*-1462.2*	*-1189.5*
Exports fob	1819	1657	1591.3	2089.8	2357.1
Imports fob	2113	2630	3213.1	3552.0	3546.7
Non factor services (net)	*-143*	*-207*	*-31.7*	*-41.4*	*-62.8*
Income (net)	*-245*	*-224*	*-200.4*	*-199.9*	*-204.1*
Private transfers (net)	*440*	*625*	*926*	*662.4*	*597.8*
Capital Account (Incl. Official Transfers)	166	273	-70	578.5	470.5
Grants	*42*	*73*	*391*	*300.0*	*210.0*
Direct Investment (Net)	*66*	*52*	*105*	*85.2*	*90.0*
Portfolio Investment (Net)	*-27*	*0*	*67*	*95*	*100.0*
Long Term Capital (net)	*12*	*-174*	*-128*	*-102.6*	*-21.3*
Short term capital (net)	*73*	*322*	*-925*	*200.9*	*91.8*
SDRs	*0*	*0*	*420*	*0*	*0*
Overall balance	**-323**	**-725**	**-1908**	**-462.6**	**-388.2**
Memorandum items:					
Gross Official Reserves	153	76	366	420.8	395.0
Months of imports cover	0.7	0.3	1.2	1.4	1.3

Source: RBZ

External Debt Developments

213. Mr Speaker Sir, notwithstanding the green shoots on the economic recovery front, the country remains saddled with an unsustainable external debt amounting to US$6.9 billion which is some 103% of GDP.

214. About 75.3% of this debt is medium to long term and is owed to official creditors.

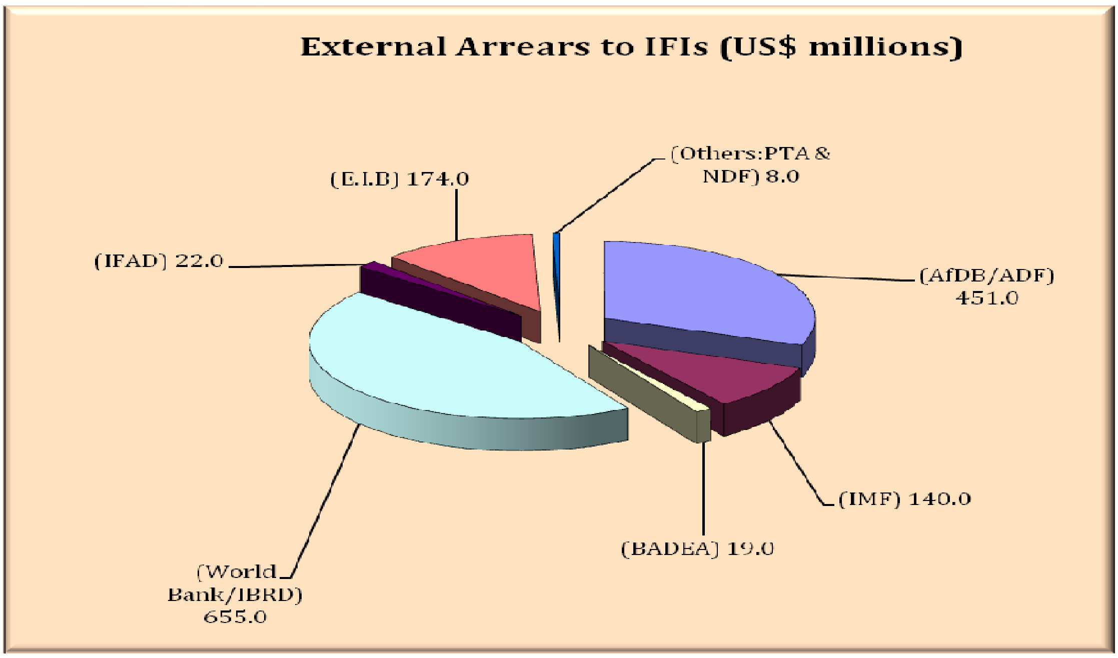
215. Mr Speaker Sir, of the total external public debt, US$4.8 billion are arrears, representing about 71.6% of GDP.

External Arrears

216. Of the public and publicly guaranteed debt of US$6.4 billion, total external arrears comprised US$4.7 billion by 31 October 2010 and are owed to:

• Multilateral Financial Institutions	US$1.469 billion
• Paris Club	US$0.386 billion
• Non Paris Club	US$0.072 billion

217. Furthermore, the US$1.469 billion multilateral arrears are owed to the International Monetary Fund (IMF), World Bank, African Development Bank (ADB), International Fund for Agriculture Development (IFAD), European Investment Bank (EIB) and others as indicated below:



218. In summary, the country's external debt position, including arrears, as at 31 October 2010 is indicated below:

External Debt Including Arrears as at 31 October 2010 (US$ millions)

	Debt Outstanding Disbursed	Total Arrears Stock	Principal Arrears	Interest Arrears
I. GRAND TOTAL	**6929**	**4769**	**3999**	**727**
o/w public and publicly guaranteed	6414	4729	3966	725
II. Government Long Term	**4044**	**2443**	**1865**	**574**
Bilateral creditors	1866	1257	1008	248
Paris Club	1597	1190	946	242
Non-Paris Club	269	67	61	6
Multilateral creditors	2177	1186	857	327
AfDB/ADF	476	409	257	152
BADEA	19	19	13	6
World Bank	952	507	380	125
IFAD	33	22	16	6
I.M.F	550	140	118	22
E.I.B	121	81	67	14
NDF	23	5	3	2
PTA	3	3	3	0
III. Parastatal Sector Long Term	**1070**	**987**	**802**	**151**
Bilateral creditors	497	458	369	75
Paris Club	405	386	306	65
Non-Paris Club	92	72	63	9
Multilateral creditors	327	283	188	76
World Bank (IBRD)	174	148	86	43
AfDB	53	42	23	18
E.I.B	100	93	78	15
Air Zimbabwe	70	70	70	0
Noczim Suppliers Credits	75	75	75	0
Zesa Suppliers Credits	101	101	101	0
IV. Private Sector Long Term	**112**	**40**	**33**	**1**
v. SHORT TERM DEBT	**1703**	**1300**	**1300**	**0**
Reserve Bank	1300	1300	1300	0
Private sector	403	0	0	0

219. The full extent of Zimbabwe's external indebtedness and the effect of capitalisation of interest due to arrears accumulation is yet to be quantified.

220. Government has already initiated a debt validation and reconciliation programme to ascertain the full extent of its external indebtedness.

Commercial Debt

221. As at 31 October 2010, parastatals owed commercial banks and export credit agencies a sum of US$246 million, of which the full amount is in arrears.

222. The private sector owed external creditors a total of US$112 million, of which US$40 million are arrears. Over and above this, about US$1.3 billion is owed by the Reserve Bank to various creditors.

V. FISCAL DEVELOPMENTS

223. Mr Speaker Sir, in my presentation of the Mid-Term Fiscal Policy Review I alluded to the challenges we face with regard to the limited fiscal space we continue to experience.

224. This forced us to adopt the cash budgeting principle which has anchored positive gains we see on the macro-economic front.

225. Mr Speaker Sir, public finance management based on cash budgeting is a challenge. Notwithstanding this, our revenue collections have exceeded the original target based on US$120 million per month. As of October 2010, total revenue collections amounted to US$1.793 billion.

226. The Vote of Credit[2] of US$810 million from development partners has, however, not performed to expectations, with only about US$360.2 million having been received by end of October 2010.

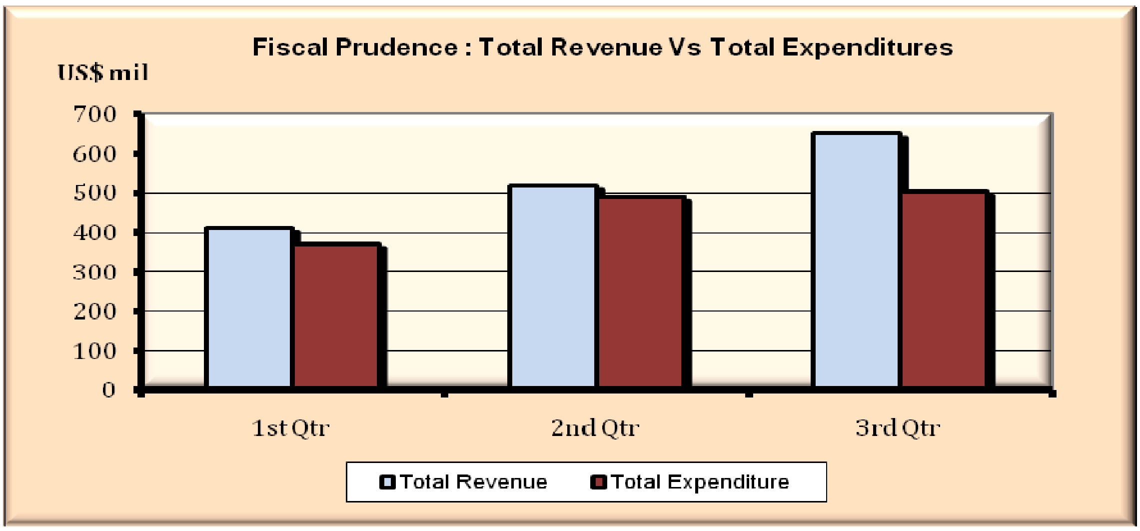
227. The US$360.2 million, however, remained outside the Budget framework, and I reflect the areas of support below under Cooperating Partners Support.

228. On the expenditure side, Government exhibited steadfastness and vigilance to fiscal prudence, containing expenditures in line with our own capacity to finance them.

229. By end of October 2010, expenditures were US$1.46 billion and are estimated to reach US$2 billion or 29% of GDP by end of December 2010.

230. As a result, the fiscus remained an important tool for sustaining macro-economic stability and improving public service delivery.

Government Finances: Revenues vs Expenditures



[2] The US$360.2 million, which was directly disbursed to various projects and programmes by development partners will, however, not be accounted for under Vote 7 of the Estimates of Expenditure, since it was disbursed outside the Budget.

231. The largest share of the Budget were current expenditures, consuming about 82% against capital development expenditures at 18%.

Cooperating Partners Support

232. Mr Speaker Sir, the support the country received from various development partners of US$360 million as at October 2010 benefitted the following programmes:

Programme	Amount US$
Agriculture	45 543 069
Education	8 166 027
Constitutional Making Process	7 374 218
Health	84 091 312
Social protection Services	137 170 764
Water and Sanitation	17 010 425
National Healing Process	950 000
Support to Civil Society	35 481 292
Public Finance Management and Capacity Building Programmes	6 443 902
Gender	7 180 000
Land Audit	608 175
Trade Promotion	9 696 367
Parliament Support	500 000
Total	**360 215 552**

233. Mr Speaker Sir, Government remains grateful for the above support whose impact was timely given the challenges that we continue to face in various areas.

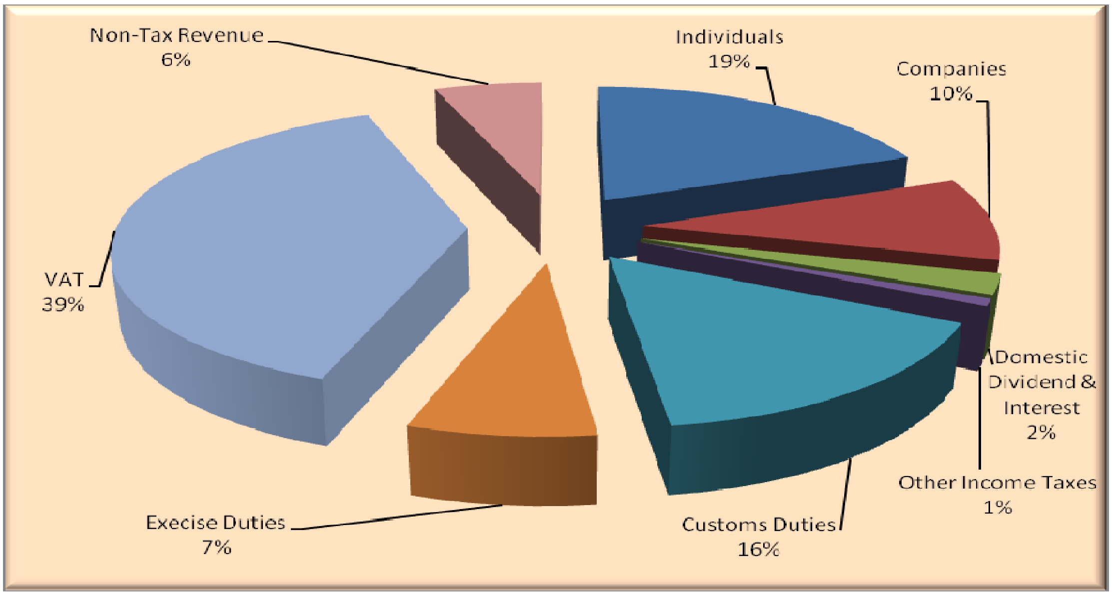
REVENUE PERFORMANCE

234. Mr Speaker Sir, as I have already alluded to above, the recovery of Budget revenues from the second half of the year resulted in

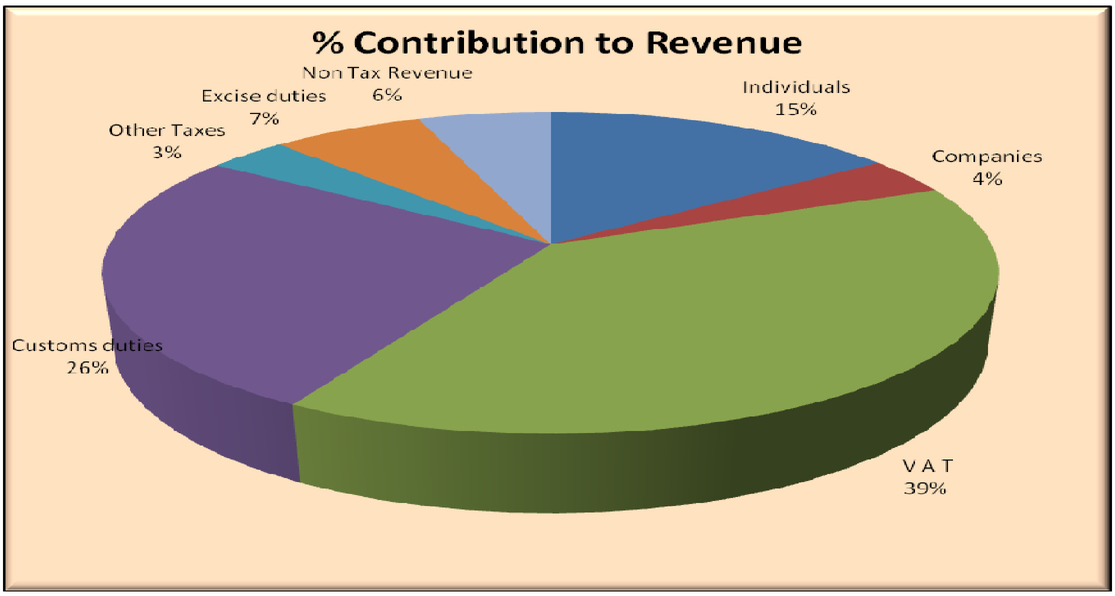
cumulative realisations of US$1.793 billion by October 2010, surpassing the target of US$1.562 billion by 15%.

235. Revenue heads that contributed significantly to total revenue during the period to September include Value Added Tax (VAT), Pay As You Earn (PAYE) and Customs Duty.

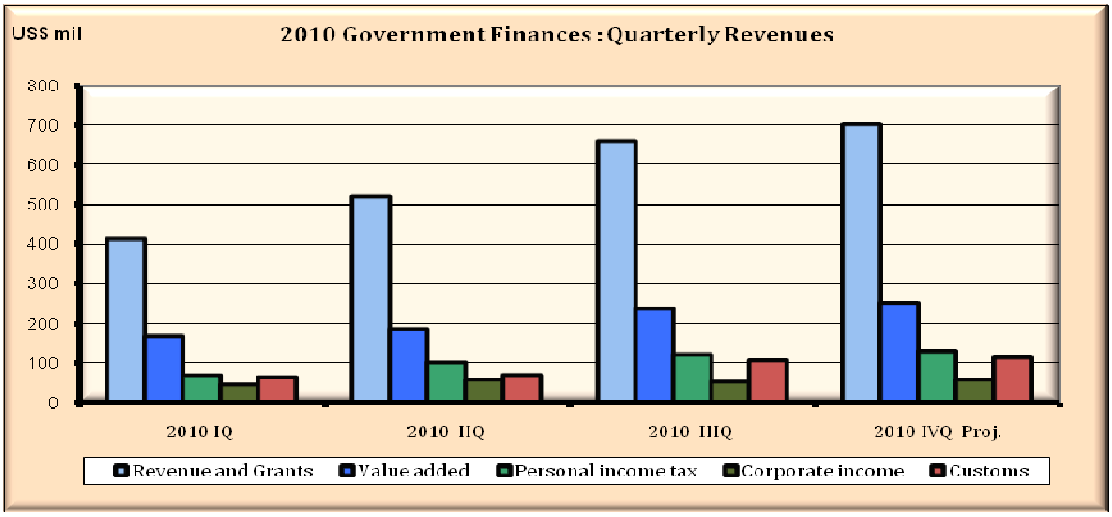
2010 Revenue Performance



2009 Revenue Performance



Quarterly Revenue Performance by Tax Heads in 2010



Value Added Tax (VAT)

236. The rise in total revenues largely stemmed from the increase in Value Added Tax (VAT), whose collections for the period January to October 2010 amounted to US$663.6 million or 37% of total revenue, against a target of US$586.6 million.

237. VAT on domestic goods and services accounted for US$368 million, whereas US$259.5 million was collected from imported goods and services.

238. The improvement in collections of VAT on domestic sales is also a result of the increases in capacity utilisation of some of the manufacturing sub-sectors.

Pay As You Earn (PAYE)

239. PAYE collections for the period under review amounted to US$329.8 million or 18.4% of total revenue, against a target of US$268.3

million. PAYE collections during the same period in 2009 amounted to US$104.4 million.

240. There has, thus, been a significant increase in PAYE collections, which is mainly attributed to reviews of wages and salaries as some firms register improvements in their operations and employment levels.

Customs Duty

241. Cumulative revenue collections from customs duty for the period January to October 2010 amounted to US$271.9 million, or 15.2% of total revenue, against a target of US$241 million.

242. Positive performance of this revenue head is mainly attributed to an increase in the volume of imports.

Corporate Tax

243. Corporate tax collections amounted to US$162.2 million or 9% of total revenue against a target of US$135.6 million. The positive contribution is mainly due to improved capacity utilisation and compliance levels, despite the current liquidity challenges.

Excise Duty

244. Cumulative excise duty collections for the period under review amounted to US$123.6 million or 6.9% of total revenue, against a target of US$177.6 million. Low revenue collection on wines and

spirits, and second hand motor vehicles contributed to the negative performance of this revenue head.

245. Consumption of locally produced wines and spirits has drastically reduced as a result of stiff competition from smuggled alcohol which retails at very low prices, since no excise duty is paid.

Other Taxes

246. Revenue collection from other taxes for the period under review amounted to US$105.7 million or 5.9% of total revenue, against a target of US$64.8 million. Other taxes include dividends and interest, vehicle carbon tax, tobacco levy and withholding taxes.

247. Tax on dividends and interest, and vehicle carbon tax contributed the bulk of revenue amounting to US$39.9 million and US$25.8 million, respectively.

Non-Tax Revenue

248. Collections from Non-Tax Revenue during the period January to October 2010 amounted to US$136.8 million or 7.6% of total revenue, against a target of US$88.1 million.

249. Dividends and mineral royalties realised from the sale of Chiadzwa diamonds and mineral royalties contributed significantly to this revenue head.

RECURRENT EXPENDITURE DEVELOPMENTS

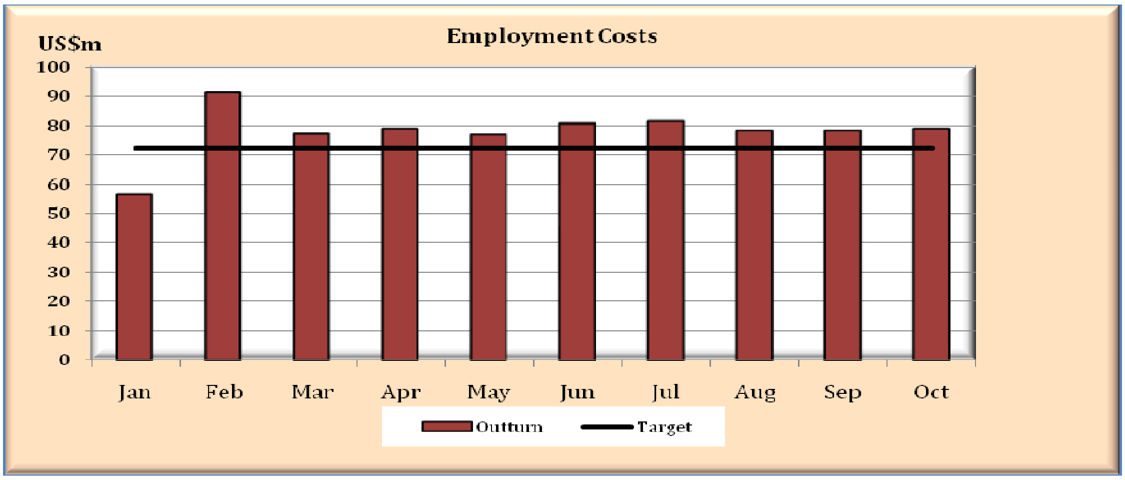
250. The 2010 National Budget provided for recurrent expenditures of **US$1.26 billion**. Cumulative recurrent expenditures to October 2010 amounted to **US$1.2 billion**, representing **82%** of the actual expenditures.

251. The bulk of the current expenditures were on employment costs, goods and services, grants and transfers.

Employment Costs

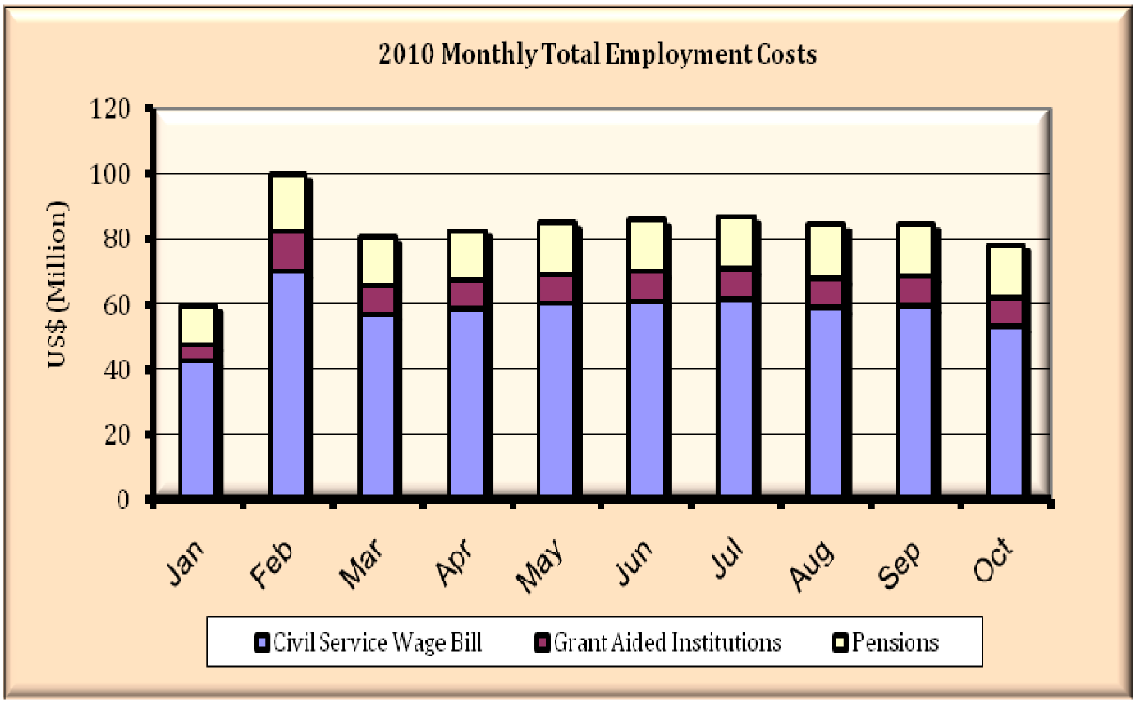
252. Employment costs to October 2010 for both the Civil Service and Grant in Aid Institutions for the period under review amounted to US$677.7 million, representing 46.3% of the actual total expenditures to October. This is also against the original target of US$565.5 million for the period.

253. The increase is on account of the decompression of the civil service wage structure effective 1 January 2010 and the introduction of transport and housing allowances in a bid to improve civil service welfare.



254. In addition, the filling of critical posts in Education and Health sectors which were exempted from the freeze also contributed to the growth in the employment costs.

Monthly Total Employment Expenditures



Pension

255. Cumulative expenditure on pension payments amounts to **US$155.6 million**, against a target of **US$157 million**. Currently, pension payments are indexed to serving members' remuneration under the Pay As You Go Scheme.

Medical Aid

256. Mr. Speaker Sir, Government is still meeting 100% medical aid contribution to Premier Medical Aid Society for all civil servants in

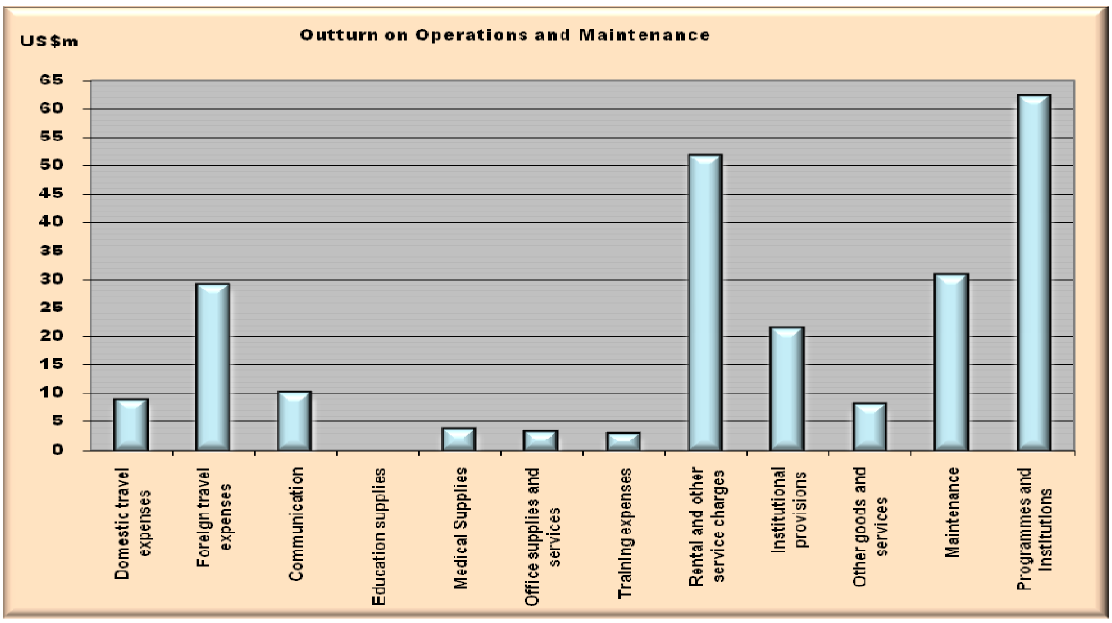
view of low remuneration in the Public Service. To date, about **US$23.4 million** has been disbursed for this purpose. As remuneration improves, civil servants will also be expected to make a contribution towards their medical insurance.

Operations and Maintenance

257. Operations and maintenance expenditures for the period under review amounted to US$233.4 million.

258. The resources were mainly directed towards financing expenditures related to:

- rental and hire expenses, US$51.9 million;
- foreign travel, US$29.2 million;
- Ministries' programmes, US$62.2 million; and
- maintenance of buildings and infrastructure, US$2 million.



Arrears to Service Providers

259. As at end of 2009, arrears to service providers for various services such as water, electricity, rentals, among others stood at US$49.4 million.

260. In line with Government's commitment to liquidate outstanding bills to service providers, US$42 million was disbursed in 2010 towards part payment of the 2009 arrears, leaving a balance of US$7.4 million.

261. In 2010, outstanding payments of US$64.9 million were incurred, thus increasing indebtedness to service providers to US$72.7 million by end of September 2010.

262. Between September and December 2010, an estimated additional amount of US$32 million will be due to service providers, bringing total outstanding obligations to about US$104.7 million.

Foreign Travel

263. Mr Speaker Sir, foreign travel remains unsustainably high relative to other critical services.

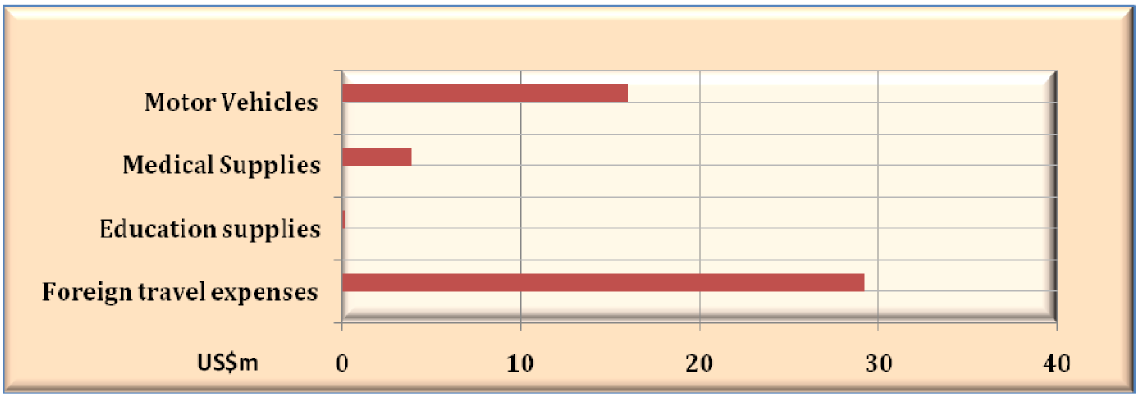
264. To October 2010, foreign travel expenditures amounted to US$29.2 million, against an original budgetary provision of US$24.2 million, representing 3% of total recurrent expenditure.

265. At US$29.2 million, foreign travel represents 0.4% of GDP and, relative to other critical expenditure areas, this is unacceptably high.

Hence, the need for controls and restraint in this area cannot be overemphasised.

266. Success will require cooperation across the entire public sector, including our parastatals and local authorities, and at all levels.

Cumulated Expenditure to September 2010 on Selected Items: US$ million



Foreign Missions

267. During the period under review, foreign missions received support amounting to US$21.7 million for operations and clearance of arrears. Outside arrears, the monthly obligation to Foreign Missions is US$4 million, which is 2.7% of our expenditures.

268. Mr Speaker Sir, the current level of expenditure on foreign Missions is not sustainable and bold and decisive decisions need to be made and taken to contain expenditures in this area.

269. Pursuant to this, cost cutting measures, including recall of officers whose term of duty has expired, are being instituted in order to contain further accumulation of arrears at our Foreign Missions.

Social Services Delivery

Education

270. In 2010, Government in partnership with cooperating partners supported 5 575 primary schools with a package of four textbooks per pupil, stationery and steel cabinets valued at US$52 million. This intervention is set to reduce the textbook to pupil ratio from 1:30 to 1:1.

271. Restoring the credibility of our education system and quality of education also involved ensuring efficiency in the conduct of examinations and enhancing supervision and monitoring of schools. Hence, US$3.1 million was availed for this programme.

272. Resources amounting to US$14.4 million were also at the disposal of the Zimbabwe Schools Examinations Council out of the 2010 examination fee payments.

273. Government also supported 34 000 local and foreign based students through payment of tuition fees and stipends at a cost of US$8.4 million.

274. To improve service delivery by tertiary education institutions, disbursements of US$3.6 million were made towards operational requirements of State Universities, Polytechnics and Teachers' Colleges.

Health

275. Improving health services delivery was also prioritised in 2010 in line with the Millennium Development Goals.

276. Government disbursed funds amounting to US$115 million to cater for health institutions operations.

277. This was further augmented by US$12 million for the resuscitation of Gwanda, Masvingo, Ngomahuru, Ingutsheni, Gweru and Karoi hospitals. This intervention has seen an increase in patients receiving treatment at the institutions.

278. Mr Speaker Sir, notwithstanding that funds were allocated in March 2010, the bulk of this money has not been spent.

279. Utilisation levels have been as follows:

Utilisation Levels of NDF Disbursements

Health Institution	Allocation	Funds Utilisation	Balance	Absorption Rate
Ingutsheni	R24 400 000	R839 765	R23 560 235	3%
Gweru	R32 200 000	R4 636 290	R27 563 710	14%
Ngomahuru	R23 400 000	R3 445 755	R19 954 245	15%
Karoi	R20 000 000	R574 437	R19 425 563	3%
Mutare	US$3 000 000	US$2 322 832	US$677 168	77%

Social Protection

Basic Education Assistance Module

280. To contain school drop-out rates at both primary and secondary level, Government and development partners availed US$30 million

towards the payment of school fees and examination fees for vulnerable children, targeting 625 000 primary school pupils and 160 000 secondary school pupils.

281. To date, Government has availed an amount of US$10 million towards assisting 140 000 vulnerable secondary pupils, whilst cooperating partners supported 513 000 primary school pupils, giving a cumulative expenditure of US$18.4 million on the Basic Education Assistance Module (BEAM). This, however, falls far short of the resource requirement for the programme, given the current economic hardships facing many households.

282. Furthermore, notwithstanding positive strides made under the almost collapsed BEAM, the same trend also applies, as the supported 503 419 primary school pupils were out of a target of 625 000 at a total cost of US$7.2 million.

283. In secondary schools, 136 866 students out of 140 000 were supported with tuition and levy payments to the tune of US$390 325, whilst 6 489 students were assisted with examination fees.

Public Works & Health Assistance Programmes

284. Under the Public Works Programme, only 13 600 out of targeted 63 000 households were supported in 2010 at a total cost of US$2 million.

285. Similarly, a total of 15 000 vulnerable individuals under the Health Assistance Programme were catered for, against a target of 24 000 individuals.

Food Assistance Programme

286. In response to the results of the Zimbabwe Vulnerability Assessment Committee (ZIMVAC) and Nutrition Survey which indicated that 3.6 million people will be food insecure between July 2010 and March 2011, Government has reintroduced the food deficit mitigation strategy targeting 212 000 households.

287. Beneficiaries are accessing support through public works programmes and, to date US$2 million has been disbursed towards the programme.

Agriculture Services

Agriculture Training and Extension Services

288. Productivity in agriculture still lags behind that of many other countries. For example, average maize yields stand at less than one ton per hectare.

289. To capacitate our farmers with technical skills and knowledge to increase agricultural productivity, support to the tune of US$4.4 million was directed towards farmer training and provision of

extension services. This has resulted in 100 000 farmers being trained in livestock and crop production.

290. The increase in the number of graduands from Agriculture colleges which has surpassed the Government target of 6 500 extension workers has helped reduce this ratio.

Animal Disease Prevention and Control

291. In recognition of the need to prevent the entry, spread, establishment and resurgence of notable animal and zoonic diseases, Government disbursed US$3.5 million towards procurement of vaccines and dip chemicals. This has enabled us to procure one million doses of anthrax and foot and mouth vaccines, adequate to handle outbreaks in the five foci points.

Constitution Making Process

292. As part of its commitment to fulfil the provisions of the Global Political Agreement, Government in partnership with cooperating partners availed resources to the tune of US$13.7 million towards the Constitution Making Process.

293. Of this amount, Government contributed US$4.8 million towards training of teams and the Outreach Programme.

294. This intervention has enabled outreach teams to fully cover all the Provinces by the end of October 2010.

Maintenance of Infrastructure

295. The poor state of many Government buildings remains unacceptable as a result of a number of factors, which include under-funding for maintenance and repairs, negligence, lax security systems and unchecked vandalism.

296. The US$2 million disbursed towards maintenance of buildings and fixed equipment remains inadequate in light of the above challenges and, hence, the need for the Budget to focus on this.

Grants and Transfers

297. Cumulative expenditure for operations of Grant Aided Institutions amounted to US$48.4 million.

298. Of this amount, US$6.2 million is for students support at both foreign and local universities, US$1.3 million for marking of 2009 grade 7 examinations, Political Parties Grant, US$4 million; and support to war veterans, US$4.9 million, with respect to payment of school fees.

299. Funds amounting to US$7.2 million were also spent on health institutions under Local Authorities, Missions and Central Hospitals.

300. To enjoy the full benefits of our country's affiliation to international organisations, contributions amounting to US$7.1 million were made to such organisations as the African Union (AU), SADC, and the United Nations (UN), among others.

Interest Payments

301. Mr Speaker Sir, the economic challenges we continue to face have, however, meant that we have not been able to meet our external debt obligations.

302. Hence, the Budget was only able to make some token payments to the tune of US$30.8 million towards interest payments, out of a total interest bill of US$687.8 million as at 31 October 2010.

Allocative Efficiency

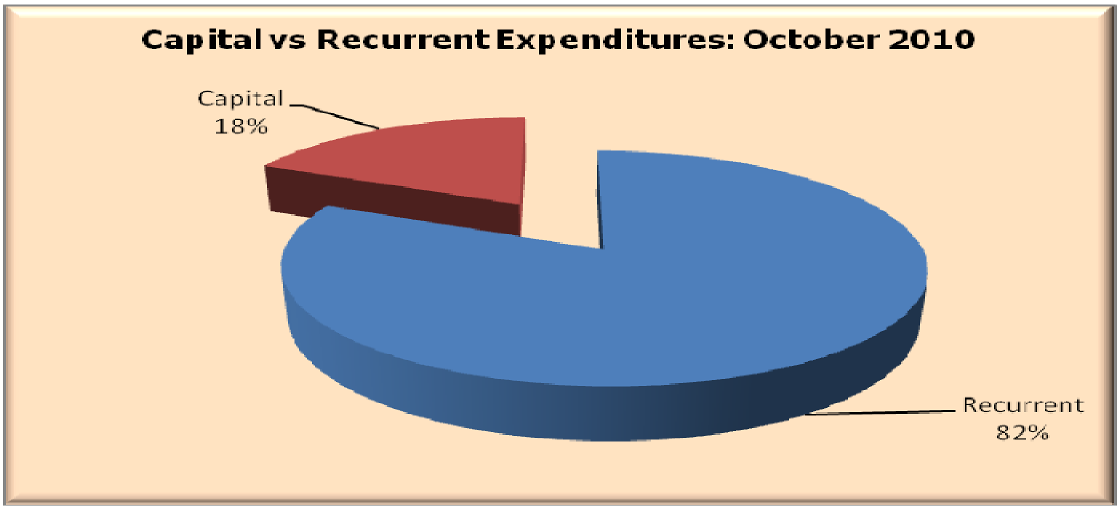
303. The expenditure matrix as reflected in the allocations to foreign travel, foreign Missions and motor vehicles reflects a structural lack of allocative efficiency in Government.

304. In addressing the question of allocative efficiency, the Ministry of Finance will from 1 January 2011 set up an Allocations Committee with clear and definitive guidelines on management and disbursement of Funds consistent with the Public Finance Management Act.

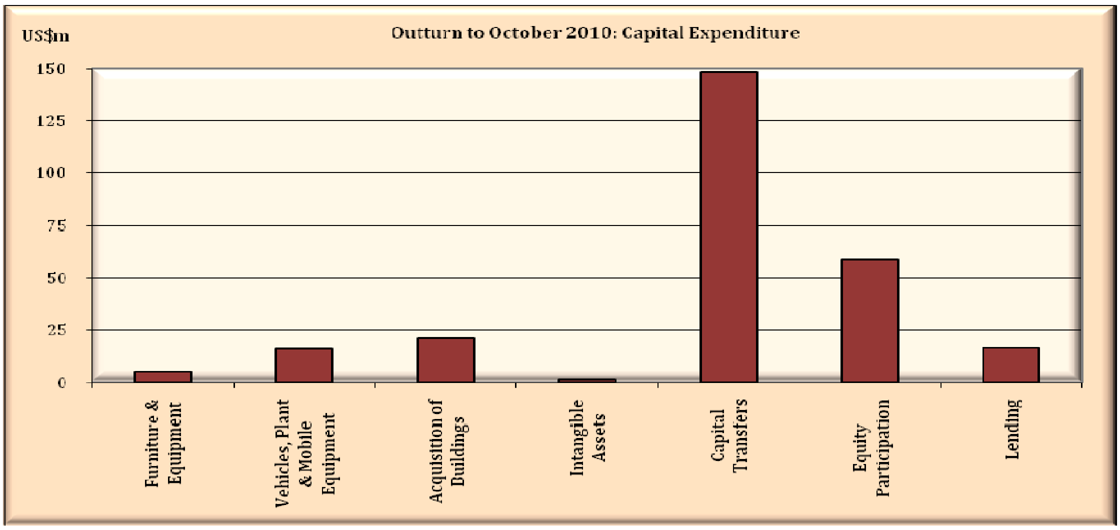
CAPITAL EXPENDITURES

305. The 2010 Budget provision for capital expenditures from domestic revenue amounted to US$266 million. As at end of October, expenditure on this item amounted to US$268 million.

306. Mr Speaker Sir, while capital expenditures are improving, these still fall far below the desired targets. Third quarter allocations, at 18% of total third quarter expenditure, were higher than the 4.3% of the second quarter. A considerable increase in capital expenditure is expected in the fourth quarter.

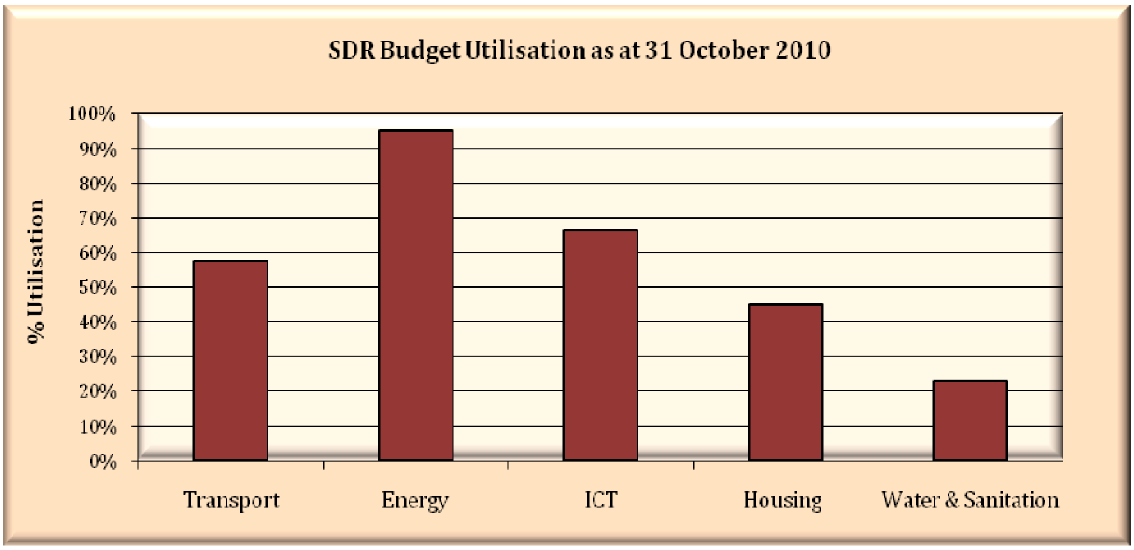


307. Adjusting for motor vehicle allocations of US$16 million, which are captured under capital expenditure, reduces total capital expenditures to US$252 million.



308. Furthermore, also of concern remains the absorptive capacity of implementing agencies with regard to utilisation of disbursed funds on capital projects.

309. In cases where financial resources are available, project implementation is often constrained by planning, procurement, human, organisational and institutional capacity challenges. This is best illustrated by performance on projects funded from our SDR resources which were released in March 2010 to identified projects.



Energy

310. Mr Speaker Sir, domestic power generation, which currently stands at around 1 200 MW, against national demand of 2 200 MW and installed capacity of 1 960 MW, remains a major constraint to the operations of all the sectors of the economy.

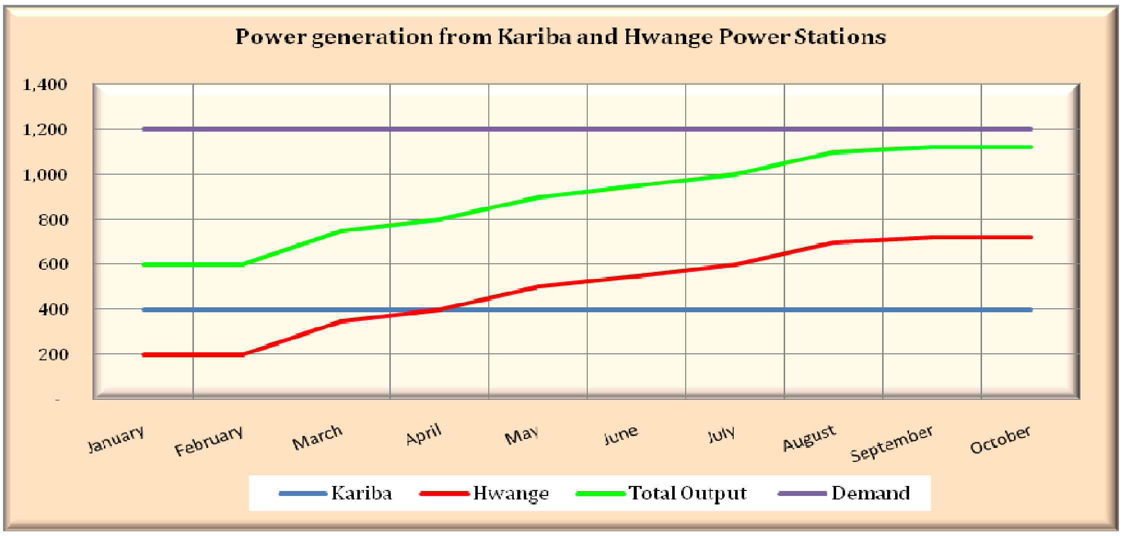
National Power Generation

Power Station	Installed Capacity	2010	2011	National Demand
Kariba	750	650	750	
Hwange	920	547	780	
Harare	100	0	40	
Bulawayo	90	0	40	
Munyati	100	40	40	
Total	**1960**	**1237**	**1650**	**2200**

311. The 2010 Budget, therefore, focused on supporting increased generation capacity at Hwange and Kariba Power Stations.

312. An amount of US$25 million was, therefore, availed for the rehabilitation works at Hwange Power Station, US$20 million; and for Kariba South Power Station, US$5 million.

313. With this intervention, coupled with use of own resources, ZESA has been able to put on line five units at Hwange and Kariba, currently generating 560 MW and 625 MW, respectively, for the national grid. However, generation of this level of power supply has not been consistent due to the need to rehabilitate all the common plants and stand by units.



314. Completion of all the maintenance works embarked on from September at Kariba Hydro and Hwange Thermal power stations would load an additional 285 MW onto the national grid before year end.

315. As a result, the sector is expected to record a modest growth of only 1.5% in 2010.

316. In 2011, Government support for the rehabilitation of Hwange and other small thermal power stations, including implementation of the restructuring strategy and the participation of independent power producers is expected to improve power generation to 1 650 MW.

317. However, critical in addressing the energy challenges will be the need to attract investments from the private sector as well as improvement in revenue generation by ZESA that can be reinvested in rehabilitation and maintenance of infrastructure.

318. In my Mid Year Fiscal Review Policy Statement, I reiterated the need for consumers of electricity to pay their bills, even if it meant the utility having to disconnect in order to enforce payments.

319. This measure has seen revenue collection by ZESA double from a monthly average of US$20 million during the first half of the year to the current average of U$40 million.

Transport

320. An amount of US$10.9 million was spent on rehabilitation of roads and bridge construction, US$8.8 million; upgrading of airports, while US$4.3 million, was on rail infrastructure.

Roads and Bridges

321. Mr Speaker Sir, growth in road traffic volumes, particularly following economic stabilisation, continues to over-stretch the existing infrastructure, compromising road safety and provision of efficient transport services.

322. This has necessitated Government to come up with alternative ways of increasing investment in the sector, more so given that 80% of the 88 100 km road network is in need of rehabilitation.

323. Of the above amounts, an amount of US$6 million was availed, targeted at the dualisation of the Harare – Masvingo and the Harare – Gweru roads. This included the construction of the Manyame and Mukuvisi bridges.

324. Government intervention was supplemented by ZINARA resources amounting to US$25.1 million availed to road authorities for routine and periodic maintenance, emergency works and road safety activities.

325. Mr Speaker Sir, these efforts notwithstanding, most of our roads in both urban and rural areas remain in a very poor state on account of

inadequate resources and dysfunctional local authorities' road maintenance equipment.

Railways

326. The deterioration in the state of rail infrastructure has led to a decline in service levels from a design capacity of 18 million tons per year to around 5.3 million currently.

327. The major challenges in the sector include dilapidated track and obsolete signalling infrastructure, as well as lack of working capital for refurbishment of wagons and locomotive equipment. Unchecked and rampant cases of vandalism have exacerbated the situation.

328. Resources amounting to US$7 million were availed to the parastatal, aimed at rehabilitating track infrastructure as well as signalling equipment. This has seen the parastatal reduce the track under cautions from 494 km to 394 km, as well as procurement of some of the signaling equipment.

Airports

329. The 2010 Budget made a provision of US$16.6 million for the rehabilitation and upgrading of Harare and J. M. Nkomo international Airports as well as procurement of the Instrument Landing system for the latter.

330. Notable progress has been realised on the rehabilitation of taxiways at Harare International Airport. For the J. M. Nkomo Airport, the Instrument Landing System has been procured and personnel has undergone specialist training.

Water and Sanitation

331. Addressing water and sanitation issues remains Government's priority as the requisite infrastructure has gone unattended for a number of years.

332. In order to ensure availability of clean water and proper sanitation facilities, Government availed resources amounting to US$15.3 million to urban local authorities on a targeted and programmed basis.

333. Government also availed resources amounting to US$1.1 million towards rural water supply and sanitation, targeting the ten Districts of Mudzi, Beitbridge, Makonde, Nkayi, Mwenezi, Buhera, Gokwe North, Hurungwe, Chaminuka and Binga.

334. This intervention earmarked the rehabilitation of water points, as well as training of water points management committees, village pump mechanics and caretakers with a view to ensure community ownership and sustainability of projects.

335. Cognisant of the perennial water shortages experienced within the City of Bulawayo, Government has availed resources amounting to

US$7 million for the construction of Mtshabezi pipeline as well as reservoirs.

336. I am aware that the total amount required for this project is US$19.7 million and Government is committed to avail the necessary resources to ensure completion of the project.

337. Additionally, resources amounting to US$3 million have been disbursed towards the completion of Bubi-Lupane Dam which will provide water to the Lupane Local Board. Some US$750 000 has also been availed for protective works on Mutange dam.

338. Government has also availed resources to the tune of US$530 000 for the critical remedial works to the Nyajena weir which provides water for the sugar cane estates in the Lowveld.

Education Infrastructure

339. Rehabilitation and expansion of education infrastructure at all levels remains a priority of Government.

340. In this regard, a total of US$20 million was disbursed for the rehabilitation of infrastructure. For State universities, US$15.7 million was spent on the rehabilitation of halls of residence, teaching and learning facilities. The breakdown of the disbursement is as indicated in the Table below.

INSTITUTION	DISBURSED AMOUNT US$	PURPOSE
University of Zimbabwe	3,376,000	Rehabilitation of hall of residence and student union building, buses, construction of water tank and B. Ed Technical.
Chinhoyi University of Technology	447,310	Rehabilitation of halls of residences and canteen and provision of furniture and equipment.
Harare Institute of Technology	532,000	Rehabilitation of hall of residences and upgrading of workshops equipment
Zimbabwe Open University	450,000	Upgrading of regional centres and provision furniture and equipment
National University of Science and Technology	3,461,000	Completion of one hall of residences and ceremonial hall and provision of furniture and equipment
Great Zimbabwe	724,000	Rehabilitation of halls of residences, teaching areas, upgrading the sewer system and furniture and equipment
Lupane State	1,800,000	Construction of the Faculty of Agriculture and former land owner's compensation
Bindura University of Science Education	867,000	Rehabilitation of building and upgrading the water system
Midlands State University	2,093,000	Completion of Administration block, rehabilitation of hostels, teaching and learning areas and the water reticulation system.

341. Polytechnics and teacher colleges received an amount of US$1.6 million for the upgrading of equipment and rehabilitation of buildings.

342. Furthermore, US$3 million was availed for the rehabilitation of identified primary and secondary schools. Given the state of infrastructure in most schools, there is need to scale up the rehabilitation programme, including the procurement of teaching and learning equipment.

343. The Ministry responsible will address bottlenecks impeding project implementation, including identification of schools and effective disbursement modalities to targeted schools.

344. In an endeavour to improve the supervision of schools, an amount of US$1.32 million was disbursed for the procurement of 44 supervision vehicles.

Health Infrastructure

345. On account of the limited fiscal space on the Budget, Government adopted the targeted approach in resuscitating health institutions across the country.

346. So far, an amount of US$27.5 million has been availed in revitalising health delivery at various institutions across the country. Support to Harare, Chitungwiza, Parirenyatwa, Mpilo and Ingutsheni Central hospitals amounted to US$7.55 million targeted at procurement of medical equipment, lifts, medical gas piping, and refurbishment of the sewer system and boilers.

347. For Gweru, Mutare, Masvingo and Gwanda Provincial hospitals, an amount of US$9.22 million was availed for the refurbishment of infrastructure, procurement of medical equipment and provision of ambulances.

348. In order to improve access to health in rural areas, an amount of US$4.5 million was spent on completion of ongoing construction and upgrading works at 9 district and 8 rural health centres.

349. In addition, Treasury has paid for the procurement of 50 ambulances at a cost of US$2 million.

Information Communication Technology

Backbone Infrastructure

350. To improve use of information communication technology, Government has availed resources amounting to US$7.7 million towards establishment of the communication backbone infrastructure, largely through Tel-One.

351. The resources were meant for the optic fibre link from Harare to Mutare. To date, 228 km out of the 261 km have been excavated and pipes covering 101km have been laid.

352. In addition, an amount of US$1 million was availed to Transmedia for the construction of new base stations. This should enhance reception of broadcasting services across the country.

E-Government

353. To date an amount of US$50 000 has been disbursed towards the e-Government programme, a development that has seen the development of 28 websites for Ministries.

354. The target is to create an e-government platform which will enable citizens to obtain Government information and services from their local district offices without waiting in queues and travelling long distances.

E- Learning

355. So far, Government has availed an amount of US$1 million for the procurement of computers for schools, both primary and secondary. This has seen a total of 330 computers being procured out of a target of 589, for distribution across the Provinces.

Housing

356. Mr Speaker Sir, absence of serviced land, in terms of provision of offsite and onsite infrastructure, remains a challenge for the majority of our people to access decent housing.

357. Government also equally continues to incur huge rentals for office accommodation for some of its Departments due to the shortage of office space.

358. Hence, the Budget availed an amount of US$31.4 million for provision of institutional accommodation, servicing of stands, as well as provision of loan facilities for civil servants.

359. With regards to servicing of stands, an amount of US$10 million was spent on Kwekwe (Mbizo 22), Harare (Dzivarasekwa and Willowvale), Marondera (Paradise Park), Bulawayo (Parklands and Emganwini) and Masvingo (Runyararo West) housing projects, some of which have already been completed.

360. Government also availed a total of US$15.4 million to alleviate shortages of office space.

361. A total of US$4.2 million was also channelled towards works at the Central Registry Building, three District registry offices, Lupane Composite office as well as rehabilitation of buildings for the Zimbabwe Republic Police.

362. In addition, Government has also purchased two properties for our embassies in Paris and Brussels at a cost of US$3 million, that way reducing exposure to rental escalations.

VI. PREVAILING CHALLENGES

363. Mr Speaker Sir, the above review of economic and fiscal performance, when taken together with the extensive public consultations we have held gives a cockpit view of the problems affecting our economy and indeed our country.

364. The problems are huge and structural and will require unrelenting effort to resolve. They can be divided into political, social, institutional and economic categories as I see them:

Political

- Political challenges around GNU
- Discord in the GNU;
- Lack of certainty on the tenure of the GNU;

- GPA contestation and outstanding issues;
- Democracy and rule of law deficit;
- Cyclical and turbulent nature of the country's politics;
- Lack of finality on the land reform programme;
- Lack of definition of a clear land tenure system;
- Zimbabwe's isolation and lack of integration;

Social

- Poverty and unemployment;
- Huge numbers of vulnerable, including households with chronic illnesses, child headed households;
- Weak social delivery in education and health where there is:
    - High number of school drop-outs [figures];
    - High infant mortality rates [figures];
    - Low quality of life:
    - 67% of the population draws water from unprotected sources (ZIMVAC Assessment Report May 2010);
    - 46% of the population have access to unimproved toilet facilities (ZIMVAC Assessment Report May 2010);

Institutional

- Lack of competitiveness;
- Huge bureaucracy and red tape;
- High cost of doing business;

- No public confidence in public institutions e.g. parastatals and government departments;
- High levels of leakages and arbitrage;
- Polarised spaces in particular in the media (even churches are not spared); and
- Huge levels of mistrust in both public and private spaces.

Economic

- Lack of Fiscal Space;
- Absence of Alternative Instruments other than the Fiscus;
- Lack of Foreign Direct Investment;
- Lack of Liquidity;
- Infrastructure;
- Labour Market Inflexibility;
- High Cost of Utilities;
- Energy;
- Skills Gap;
- Lack of Absorption Capacity;
- Debt Overhang;
- Management of Public Resources;
- Capacity stagnation;
- Low Aggregate Demand;
- Low wage equilibrium;
- High unemployment;
- Dichotonomies and Contradictions

- Greatly improved macro-economic conditions but difficult business environment
- Unintegrated informal sector
- Unintegrated rural economy

VII. MACRO-ECONOMIC FRAMEWORK

Inflation

365. Mr Speaker Sir, we anticipate inflationary pressures to remain muted, with inflation expected to average between 4.5% – 5% through the continued use of multi-currencies as well as cash budgeting in 2011.

366. Improvements in production output across all sectors of the economy as well as the continuation of the duty free importation of most basic commodities will also ensure stability in prices.

367. For those products that will have their duty free importation status reviewed, best practice as well as the principle of protecting consumers from monopolistic pricing will be applied.

368. The absence of the "base effects" which led to the return of positive year-on-year inflation in March 2010 will also ensure that headline inflation remains within the SADC macro-economic convergence criteria in 2011.

Real Sector

369. In the Three Year Macro-Economic and Budget Framework 2010 – 2012 (STERP II), the Framework targets for 2008 – 2012 were as follows:

	2008	2009	2010	2011	2012
Real Sector and Inflation					
GDP level in US$ (Millions)	4958	5179	5561	5938	6345
GDP growth (%)	-10	4.7	7	6.3	6.3
Annual Average Inflation (%)		-5.5	5.1	7.7	7.8

370. Mr Speaker Sir, Honourable Members will be aware that ZIMSTAT, who have the mandate of producing National statistics, have had the year 2000 as the base period for the production of recent statistics.

371. In light of the challenges and distortions experienced during the hyperinflationary years 2004-2008, it became necessary that the base year 2000 be reviewed to 2009, the first year of the re-establishment of macro-economic stability under the multi-currency system.

372. Production surveys for the year 2009 which were carried out by ZIMSTAT during 2010 culminated in the production of a revised 2009 GDP figure of US$5.6 billion, up from the previous under-estimate of US$3.5 billion.

373. As I have already alluded to in my outline of Recent Economic Developments, individual sectoral performances during 2010 indicate an estimated real GDP growth rate for the year of 8.1%.

374. Projections for the year 2011 are of real GDP growth of 9.3%, underpinned by further recovery in mining production with output rising by a strong 44%.

Real GDP Growth Forecasts For 2011

GDP by sector (%)	2009	2010 Est.	2011 Proj.
Real GDP	5.7	8.1	**9.3**
Agriculture, hunting and fishing	14.9	33.9	**19.3**
Mining and quarrying	8.5	47	**44**
Manufacturing	10.2	2.7	**5.7**
Electricity and water	1.9	1.5	**2.5**
Construction	2.1	1.5	**1**
Finance and insurance	4.5	0.5	**2**
Real estate	2	0.9	**1**
Distribution, hotels and restaurants	6.5	0.5	**6**
Transport and communication	**2.2**	**0.1**	**5.5**

Source: CSO, MOF

375. This will be complemented by forecasts of a normal rainfall season which should see agriculture grow by 19.3%, also against the background of improved viability of farmers benefitting from the multi-currency regime as well as the liberalised marketing environment.

376. Manufacturing growth for 2011 is also projected upward, at 5.7%. This is against the background of anticipated improvements in capacity utilisation.

377. In this regard, interventions will be required to get firms to overcome challenges related to poor access to capital, reliance on antiquated machinery, and high domestic production costs. This is critical for improved competitiveness against foreign products both in the domestic as well as export markets.

378. Government efforts on improving power supply and the availability of medium to long term capital following the unveiling of the Zimbabwe Economic and Trade Revival Facility (ZETREF) in September 2010 will help improve industrial capacity utilisation.

379. Continued recovery of tourism is projected to anchor a projected 6% growth in distribution, hotels and restaurants. Growth of 5.5% is anticipated for the transport and communications sub-sector, also benefitting from higher investment in ICTs.

380. The finance and insurance industry is projected to register growth of 2% during 2011.

	2009	2010	2011
Real Sector and Inflation			
GDP level in US$ Million	5623	6716	8073
GDP growth (%)	5.7	8.1	9.3
Annual Inflation (average) (%)	-7.7	4.0	4.5
External Sector (US$ million and % of GDP)			
Exports of goods and services	2006.4	2540.0	2790.2
% of GDP	28.3	31.1	29.2
Imports of goods and services	3659.8	4043.6	4042.5
% of GDP	57.1	52.9	43.9
Overall Balance of Payments	-1767	-463	-388
Central Government (US$ million and % of GDP)			
Total Revenue Central Government (including grants)	973	2200	2746
% of GDP	17	33	34

381. Drawing from the above, the 2011 National Budget is premised on a Macro-Economic Framework, which projects growth of about 9.3%, and average inflation levels of about 4.5–5%. This translates into nominal GDP of about US$8.07 billion.

Implications for the Budget

Revenues

382. Total domestic Budget revenues of US$2.7 billion are projected for 2011.

383. Indications are that developing partner support in 2011 will largely be channelled outside the Government Budget system. While the Multi Donor Trust Fund, the Zim-Fund, has been successfully activated, with confirmed contributions by donors standing at about US$70 million, this is being administered outside the fiscus as well.

384. I have, therefore, maintained cooperating partner support for the Vote of Credit (VOC) at no more than US$500 million. This would augment our envisaged revenue performance for next year of US$2.7 billion, bringing the overall 2011 Budget Estimate to US$3.2 billion.

Expenditures

385. Mr Speaker Sir, it follows that we have to accommodate those Budget priorities that fit within our resource envelope as dictated by the

domestic revenue capacity of the economy, given the absence of recourse to borrowing.

386. I, therefore, propose that I rationalise the US$11.3 billion bids for Budget funding in 2011, comprising of US$3.8 billion for recurrent expenditure and US$7.5 billion for the capital budget, to US$2.7 billion.

387. Mr Speaker Sir, of the proposed 2011 Budget of US$2.7 billion, I propose applying US$2.2 billion or 80% towards Recurrent Expenditures. Of this amount, the amount required for the wage bill places a big challenge when looked at against all the other requirements, including support to health and education delivery services, agricultural services, social protection, payment of service providers and maintenance of infrastructure.

388. Mr Speaker Sir, I propose that an amount of US$550 million or 20% out of the Revenues of US$2.7 billion goes towards Capital Expenditure.

General Framework Assumptions

389. The above 2011 Macro-economic Framework is anchored on the following assumptions:

Peace and Stability

390. The fundamental underlying assumption anchoring our 2011 Framework is the continued existence of a modicum of political

stability, general peace and the implementation of the reform agenda contained in the Global Political Agreement.

Macro-Economic Policies

391. The second anchor is the continued implementation of sound STERP I and STERP II macro-economic policies and liberalisation measures, which have brought the certainty underpinning confidence in the business environment and the growth experience of 2009 and 2010.

392. This, Mr Speaker Sir, includes guarantees around the continued execution of prudent fiscal policies, and avoidance of re-introduction of economic distortions.

Improved Agriculture and Mining

393. Thirdly, is the anticipated increased performance in the agriculture sector, benefiting from support facilities organised by Government, cooperating partners and financial institutions, taking advantage of forecasts of good rains.

Commodity Prices

394. The firming up of international prices for commodities will also guarantee an improved current account position.

395. However, deteriorating commodity terms of trade will, in the absence of strong diversification of our export base towards manufactures

which are less susceptible to international price volatility, compromise the realisation of Framework projections.

Multiple Currencies

396. The Framework projection for the average annual inflation of 4.5% is predicated on continued use of multiple currencies. This has chlorinated the local economy against self-propelling inflation experienced during the hyper-inflationary era.

397. Use of multiple currencies is also central to sustaining business confidence, necessary for increased capacity utilisation, supply side recovery and increased competition, particularly in the retail sector.

VIII. BUDGET THRUST AND PRIORITIES

398. Mr Speaker Sir, the above Macro-Economic Framework provides the parameters within which the 2011 Budget priorities have been considered.

399. Honourable Members will all acknowledge the progress Government has made with regard to reviving business activity.

400. Albeit the many outstanding challenges that we are still to overcome, Government has been able to sustain macro-economic stability with some capacity utilisation improved, infrastructure rehabilitated and basic public services restored, particularly in health, education, water and sanitation.

401. These gains offer us opportunity to begin re-establishing a sustainable and rapid growth mode for the economy which, within the next five years, should see our country resume its standing within the context of both the regional and global economy.

402. Central to maintaining the growth momentum will be consistent implementation and strengthening of policies to resolve our challenges as Government has enunciated in STERP.

403. As Honourable Members will recall, the mandate of rebuilding Zimbabwe's economy following years of decline has been based on an incremental matrix laid out in STERP I and STERP II. The 2011 Budget, just like the revised 2009 and the 2010 Budgets, are mere building blocks on the STERP incremental matrix.

404. In STERP I, our key concern was that of laying the foundation of a normal, functional and democratic economy. Thus, the key priority areas were the following:

Political and Governance Issues

- The Constitution making process;
- The media and media reforms;
- Legislation reforms intended at:
  - Strengthening Governance and accountability;
  - Promoting Governance and the rule of law; and
  - Promoting equality and fairness, including gender equality.

Social Protection

- Food and Humanitarian Assistance;
- Education;
- Health; and
- Strategically targeted vulnerable sectors.

Stabilisation

- Implementation of a growth oriented recovery programme;
- Restoring the value of the currency and guaranteeing its stability;
- Increasing capacity utilisation in all sectors of the economy and, hence, creation of jobs;
- Ensuring adequate availability of essential commodities such as food, fuel and electricity;
- Rehabilitation of collapsed social, health and education sectors; and
- Ensuring adequate water supply and safe sanitation.

405. Having attained some modicum of stabilisation at the end of 2009, our incremental focus became the imperator of graduating from stabilisation to growth. Thus, the objectives of STERP II were more ambitious and included the following:

- Sustainable macro-economic stabilisation and consolidating STERP I;
- Support for rapid growth and employment creation;
- Ensuring food security;
- Restoring basic services;
- Encouraging public and private investment;
- Restoring basic freedoms; and
- Restoring of international relations.

406. In the 2010 Budget, the major focus was on reconstruction, whilst at the same time consolidating the macro-economic stabilisation attained in 2009.

407. Mr Speaker Sir, following our wide-spread consultations, reconstruction with equitable growth and stability still remains a fundamental imperator in the sculpturing of the **modern democratic developmental State,** also dealing with the issues of exclusion and marginalisation in development programmes.

408. Four things are critical:

- Implementation of supply side policies to resuscitate and increase sustainable growth and creation of jobs in the economy.

- Increasing expenditure on rehabilitation and maintenance of our infrastructure, also embracing rural development.

- Increasing expenditure on basic social services, particularly in health and education.

- The execution of pro-poor economic development policies, integrating the participation of marginalised groups, including the youth, women, people living with disabilities and HIV/AIDS.

409. Mr. Speaker Sir, the above are essential to create a **Shared Economy**, **Shared Development** and **Shared Transformation**. These three Ss and the T will engender and mitigate the overwhelming sense of unfairness prevailing in the economy. Put in simple terms, Mr Speaker Sir, the sum totality of the **Shared Economy, Shared Development, Shared Transformation** is a **Fair Economy**.

410. Mr Speaker Sir, the creation of a **Fair Economy** is the deliberate **Thrust** of the 2011 National Budget that is anchored by the **Vision** of the **modern democratic developmental State.** Indeed this is a mere fulfilment and actualisation of Article 22 of the African Charter on Human Rights.

411. The creation of the **Fair Economy** through the pillars of a **Shared Economy, Shared Development and Shared Transformation** is predicated firstly on certain **foundational issues** that must always be attended in this economy. Secondly, are specific cutting edge or **Champion issues** that are major catalysts of the **Fair Economy.** In this respect, therefore, the 2011 Budget will focus on the following priority areas:

SHARED ECONOMY

- **Consolidation of Macro-Economic Stability**
  - Policy consistency.
  - Cash Budgeting.
  - Continued use of multiple currencies.
  - Further exchange control liberalisation.
  - Cross rates.
  - Small denominations.
  - Money transfer agencies.

- **Agriculture and Food Security**
  - Agricultural Productivity.
  - Targeted financial support for Vulnerable Farmers.
  - Financial sector support for farmers.
  - Pricing and Marketing arrangements.
  - Livestock Production.
  - Irrigation Development
  - Research and Extension Services.
  - Security of Tenure and Land utilisation.

- **Investment Promotion**
  - Reversal of de-industrialisation.
  - Leveraging the country's natural resource endowment, including mineral wealth.
  - Value addition.
  - Diaspora participation.

- **Domestic Resource Mobilisation**
  - Improved access to domestic and foreign lines of credit.
  - Domestic savings mobilisation.
  - Micro-finance Revolving Fund.
  - ZETREF, Botswana and South Africa

- **Build up of International Reserves**

- **Rationalisation of Public Enterprises**

- **Arrears Clearance & Debt Strategy**
  - Strengthening Bilateral financial cooperation.
  - Further engagement of International Financial Institutions.
  - Implementation of the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy.

SHARED TRANSFORMATION

- **Dealing with Infrastructural Barriers to Sustainable Rapid Economic Recovery and Growth**
  - Rural and Urban roads rehabilitation and maintenance.
  - Water and Sanitation.
  - Power Generation, Transmission and Distribution.
  - ICTs Investments.
  - Public Private Partnerships.

SHARED DEVELOPMENT

- **Social Services Delivery and Poverty Reduction**
  - ➢ Strengthening Public Health and Education Service Delivery.
  - ➢ Social Protection for Vulnerable groups.

- **Mining and Diamond Resources**
  - ➢ Policy on Extractive Industries.
  - ➢ The Diamond Act.

- **Small and Medium Enterprises**
  - ➢ Support to SMEs.
  - ➢ The SME Revolving Fund.

- **Women and Gender**
  - ➢ Support to Gender Campaigns.
  - ➢ Support to the Women's Support Fund.

- **Broad Based Empowerment**
  - ➢ Empowerment Imperator.
  - ➢ Support to the National Indigenisation and Economic Empowerment Fund.

- **Peace and Security**

REGULATORY AND MANAGEMENT OF PUBLIC RESOURCES

- **Accountability over Use of Public Resources**

- Re-establishing greater Transparency.
- Enforcement.

- **Fees and Revenue Retentions**

- **Employment Costs**
  - Optimum manning levels.
  - Skills development and retention.
  - Pension reforms, e.g. inflation indexed adjustments.

- **Procurement of Vehicles, Furniture and Equipment**

IX. BUDGET INTERVENTION MEASURES

412. Mr Speaker Sir, in outlining the Budget Thrust, I have already reflected the proposed priority areas.

413. Hence, it becomes imperative that as Honourable Members consider this Budget, we take the hard decisions to align the 2011 fiscal expenditures to these priorities, guided by the need to realise the maximum value out of our limited resources of US$2.7 billion.

414. Furthermore, consideration of the key policy measures, central of which are those policies that consolidate our macro-economic stability and enhance efficiency in the use of public resources, is also necessary.

X. SHARED ECONOMY

CONSOLIDATING MACRO-ECONOMIC STABILITY

415. Mr Speaker Sir, Honourable Members will recall that we have devoted most of 2009 and 2010 in STERP I to restore macro-economic stability following the ravages of hyperinflation and the cobweb of controls throttling business activity.

416. Given the progress we have made in stabilising inflation I have already highlighted that the next phase is moving the economy back on a higher growth and development trajectory.

417. In this regard, it will be necessary that as we implement our macro-economic policies during 2011 we remain focussed on consolidating macro-economic stability.

Policy Consistency

418. Central to this will be the continuation of our strict cash budgeting approach and adherence to our multiple currency practices as already enunciated in our Three Year Macro-Economic Policy and Budget Framework 2010 – 2012 (STERP II).

419. Such policy consistency, predictability and credibility will enhance business certainty, consolidating confidence in the economy – a prerequisite for investment planning and decision making.

420. Hence, to the various stakeholders who expressed anxiety on the future currency regime, be assured that Government will pursue the multi-currency regime supported by cash budgeting in the short to medium term as indicated in STERP II.

421. Further to that, debate on the future appropriate currency regime will be guided by the SADC/COMESA regional integration agenda and the respective framework for the planned Monetary Union.

Further Exchange Control Liberalisation

422. In February 2009, Government introduced the multiple currency system and liberalised current account transactions. This development ushered in a new era in the conduct of foreign exchange transactions in the market.

423. However, the new policy dispensation has not been supported by enabling legislation.

424. It has, therefore, become necessary to review and rationalise the existing Exchange Control regulations to ensure conformity and consistency with the new environment.

425. In this regard, I am proposing new Exchange Control Regulations that will replace and consolidate the existing Regulations. The new Regulations will principally provide a compact legal Framework within which the multi-currency system and the liberalisation of Current Account transactions are to operate.

Cross Rates

426. Mr Speaker Sir, during the 2011 Budget consultations, a number of stakeholders, especially those in the southern parts of the country, raised concern over exchange cross rates being applied by most retail shops, particularly between the rand and the US dollar.

427. In order to remove the rent seeking behaviour by retailers, I am proposing exchange regulations which will, among other things, compel all authorised dealers, including banks, shops, petroleum undertaking and any commercial enterprise to display the daily applicable international cross rates for all prescribed currencies in a manner that is conspicuous to the public.

Small Denominations of Currency

428. Mr Speaker Sir, the challenge with regards to cross rates is a reflection of the difficulties the public continues to face over accessing smaller denominations and coins for the two main trading currencies, the rand and the US dollar.

429. The inadequacy of small denominations under the multiple currency regime has seen consumers forced to buy unbudgeted for items, and sellers of goods and services round up prices.

430. Whilst this problem should be alleviated by electronic payment systems, the large size of the informal sector and the lack of

infrastructure for electronic payment systems in rural areas necessitate the availability of large volumes of small denominations.

431. In the Mid-Term Fiscal Policy Review I made an undertaking that Government was going to underwrite, in partnerships with banks, improved accessibility to smaller denominations and coins.

432. I am, therefore, pleased to advise on the fruitful interactions with the US Department of the Treasury which stands ready to facilitate access to acquisition of smaller denominated coins and replacement of soiled notes through the US Federal Reserve and commercial banks.

433. I will, therefore, be finalising on this in conjunction with the banking system, that way resolving the matter of challenges with change and coins. The public will be kept informed of developments in this respect.

434. Honourable Members will recall that in the past, I indicated the progress commercial banks had already made with regards to availing rand coins.

435. Mr Speaker Sir, the availability of both US dollar and rand coins will do away with the challenges posed by the current need to apply cross rates in giving change in rand coins for transactions undertaken in US dollars.

436. This had seen conflicts and impasse between the Bankers and the Retailers Associations on the usage of rand coins, which currently amount to R9 million.

Money Transfers Agencies

437. Mr Speaker Sir, I would like to acknowledge the important role being played by Money Transfer Agencies in facilitating movement of capital into the country. However, their facilitation is only restricted to inward capital flows, a development that is not consistent with the liberalised environment.

438. In this regard, I am, therefore, proposing to allow Money Transfer Agencies to also conduct capital transfers originating from the country. This measure is with effect from 1 January 2011.

AGRICULTURE AND FOOD SECURITY

439. Mr Speaker Sir, food security like macro-economic stability is a **Foundational Issue** in the re-building of our economy and to that extent it is a key priority of the 2011 Budget.

440. Thus, in creating the **Fair Economy,** conditions for the restoration of full agricultural capacity and indeed food security must be put in place.

441. To the extent that the above issues are inextricably linked to the land reform programme, Zimbabwe's quest for food security will only be addressed decisively if and only if political issues still attendant to

the land reform programme are resolved as well as technical agriculture issues.

442. The broad policy issues associated with the land reform programme that need resolution are in respect of:

- Completion of the Land Audit;
- Time-frames and finality to the land reform programme;
- Security of tenure; and
- Land taxes.

443. The key questions relating to agriculture per se are:

- Grain Production;
- Financing model of agriculture;
- The Strategic Grain Reserves;
- Marketing of agricultural produce;
- Research and extension services; and
- Agricultural Infrastructure.

444. The above issues were comprehensively covered in our Three Year Macro-Economic Policy and Budget Framework: 2010 – 2012 (STERP II). Addressing them is critical in creating the **Shared Economy** articulated in this document.

Productivity

445. The thrust of the Budget with regards to agriculture in 2011 is geared towards supporting increased agricultural production and

productivity, which has remained low at averages of about 0.7 tons per hectare in the case of maize.

446. Low yields often compromise farmer viability and put pressure on producer prices beyond levels that allow our farmers to be competitive with crops that are produced in other countries.

447. Yields in India average of 4 tons of grain per hectare, and 8 tons of grain per hectare in China, all on the back of strong investment levels in agriculture made by these Asian countries. Even higher productivity levels are experienced in such countries as the USA where yields of more than 10 tons of grain per hectare are realised.

448. Mr Speaker Sir, our quest for the restoration of the green revolution through increased support for agricultural production is also consistent with the 2003 Maputo Declaration by AU Heads of States which recommends that national budgets dedicate around 10% of fiscal resources in support of agriculture.

449. The 2011 Budget is, therefore, crafted with the objective of meeting the above target by supporting farmers enhance productivity in agriculture.

450. Key issues in enhancing productivity include strengthening the capacity of supporting institutions, particularly in research and extension services, employment of new technologies, financing, pricing which guarantees viability, and access to markets for both large-scale and small-holder farmers.

451. Government remains focussed on addressing the above issues. However, as reiterated in the 2010 Budget, Government's capacity to fully provide the resource requirements for the sector on its own is limited and, hence, invited other private sector players to complement its efforts.

452. Consistent with this, preparations for the 2011 cropping season are benefitting from both Government and the private sector support.

Grain Production

453. Mr Speaker Sir, Government has set the Strategic Grain Production Target for 2010/11 at 1.5 million tons from 1 million hectares earmarked for maize production at average yields of 1.5 tons per hectare.

454. Inputs requirements for grain production, which include seed, fertilizer and lime, are estimated at US$463 million broken down as follows:

Type of inputs	Quantity(tons)	Value of inputs: US$
Seed	49,975	110,277,600
Compound D	300,000	163,650,000
Ammonium Nitrate	301,750	178,650,000
Lime	5,600	1,680,000
Working Capital for the Vulnerable Input Programme		8,241,300
Total		**462,498,900**

455. Seasonal requirements for fertilizers amount to 600 000 tons. Increasing domestic production should reduce reliance on

importation, notwithstanding challenges related to access to lines of credit.

456. Indications so far are of domestic production shortfalls of 200 000 tons of top dressing and 170 000 tons of compound D fertilizers at an import cost of US$185 million.

457. Lessons from the past season indicate that timely availability and accessibility of inputs by farmers is a major determinant of agricultural success.

458. Government has, therefore, coordinated with banks, farmers and seed houses and fertilizer companies to facilitate the necessary financing arrangements. In this regard, various schemes are now in place to support the 2010/11 farming season.

Vulnerable Households Input Support Scheme

459. Mr Speaker Sir, the Vulnerable Households Input Support Scheme amounts to US$60 million, targeted to assist 660 000 vulnerable households with a package of fertilizers and seed inputs as well as 50 000 households with livestock assistance.

460. The fertilizers comprise of two 50 kg bags of fertilizer, one compound D and one top dressing, while the seed varies in line with ecological regions. In the drier areas, farmers receive 5 kg of small grain seed while in the other regions, 10 kg of seed maize.

461. The Vulnerable Households Input Support Scheme is co-financed, with Government contribution amounting to US$8 million targeting to support 100 000 households while the remainder of 560 000 households is supported by development partners.

462. The development partners' component is being implemented through NGOs whilst the Government component is through Agro Dealers. A voucher system is being used in both schemes for farmers to access the inputs. Able bodied farmers are expected to access the inputs after participating in public works programme.

463. Already, the two components are underway with contracts for supply and delivery of inputs to beneficiaries now operative through identified collections points.

Communal & A1 Input Support Facility

464. Mr Speaker Sir, side by side with the above US$60 million Vulnerable Households Input Support Scheme, support is also being availed to farmers by Government, through the Communal and A1 Input Support Facility of US$24.4 million.

465. This is benefitting 340 000 communal, A1 and old resettlement farmers who are accessing inputs on the market at subsidised prices.

466. Mr Speaker Sir, the subsidised input package also comprises of 10 kgs maize seed, 50kg of compound D and 50kg of top dressing fertilizers. Contracts for the supply and delivery of inputs have

already been awarded with distribution having commenced in October 2010.

467. A voucher system is also being used to distribute the inputs which are being distributed through GMB. Measures to avoid abuse and instances of double dipping have been instituted.

Financing Arrangements for A2 Farmers

Banking Sector Facilities

468. Honourable Members will note that A2 and other large scale commercial farmers are not catered for in the above subsidised input support schemes which are essentially targeted at complementing the individual efforts of one million small scale communal and resettlement farmers.

469. Mr Speaker Sir, with regard to A2 and other large scale commercial farmers who will not benefit from the above input support schemes, Government has coordinated market based facilities amounting to over US$350 million.

470. Tobacco financing, at US$158.9 million for both direct lending to farmers and through contract farming dominates the facilities now being offered by the banking sector.

471. Loans in support of cotton, soya bean and horticulture amount to US$49.7 million, some of which again will be through contract farming facilities.

472. Direct lending to individual farmers accounts for US$71.9 million, while those in support of fertilizer companies and seed houses account for US$45.3 million. However, bank credit for livestock financing remains marginal at US$4 million.

473. Furthermore, Government through Agribank is working on a credit facility for A2 including commercial farmers to access working capital for grain production. To this effect, Government is injecting US$5 million, that way facilitating their support for agriculture during the coming season.

474. Mr Speaker Sir, sustaining the revolving nature of the above banking sector facilities, which are complementing use of farmers own resources, requires that A2 and other large scale commercial farmers honour their repayment obligations as they fall due.

475. Already, on its part, Government has been making significant contributions towards the incomes of farmers through payments for grain deliveries to the GMB.

Payments through GMB

476. Mr Speaker Sir, Treasury payments to farmers through the GMB against maize and wheat deliveries under the Strategic Grain Reserve should total over US$100 million by the end of the fiscal year in December 2010.

477. Already, payments for maize and small grains deliveries to date are in excess of US$72 million, with outstanding payments amounting to US$9 million. Farmers continue to make maize deliveries to the GMB. This, coupled with estimates of 25 000 tons of wheat deliveries valued at US$11 million from this year's winter crop, will require Treasury support.

478. These payments, which complement the incomes of farmers, have also been in cognisance of the reality of several factors hindering the full participation of private players in grain procurement. These include challenges related to limited funding and lack of adequate grain storage facilities.

479. Hence, availing these resources on time has enabled the farmers to also play their part towards preparations for the 2010/11 Summer Cropping Season.

Other Facilities

480. The facilities and schemes established for farmers by the banking sector and other private players include the US$5.4 million Input Scheme initiated by Westbay Agro Industries for farmers to access inputs on credit and payable after six months at an interest rate of 10%.

481. This facility is targeting commercial farmers producing maize and soya beans putting 25 hectares and above.

482. Furthermore, a US$30 million facility has been established for members of the Zimbabwe Commercial Farmers Union to access inputs on credit terms for which the loans are payable after 270 days.

Winter Crop

483. Mr Speaker Sir, the requirements for the 2011 Winter Wheat Programme are estimated to be around US$26.2 million, targeting 45 000 hectares. The breakdown of the requirements is provided in the Table below:

Item	Quantity: tons	Cost: US$
Seed	5,400	8,100,000
Compound D Fertilizer	22,500	12,325,000
AN Fertilizer	18,500	10,175,000
Total	**46,400**	**30,600,000**

484. Treasury will also coordinate financial sector support for winter wheat farmers, also benefitting from the growing deposit base of our banking institutions.

485. Mr Speaker Sir, it is therefore Government's expectation that farmers will also play their part with regard to meeting some of the basic requirements for borrowing from the financial market.

Pricing and Marketing

Viability of Pricing

486. Mr Speaker Sir, a major pillar towards supporting farmers is ensuring pricing and marketing arrangements that reward production and contribute towards the restoration of farmer viability.

487. Weaknesses in any existing pricing and marketing arrangements ultimately force farmers to either abandon production or seek rescue

from Government Budget financial support through both subsidies and direct handouts.

488. Hence, over and above direct budgetary interventions in support of agricultural production, measures will also be instituted to facilitate farmers access viable marketing arrangements.

489. Where farmers produce under contract, Government oversight will remain in place to avoid repeats of situations where the small farmer is short changed. In the same vein, farmers themselves will also be required to honour their end of the marketing arrangements.

490. As already alluded to above, the viability of prices will also critically be a function of improvement in agricultural production yields and farmer productivity, especially in the prevailing liberalised marketing environment.

Strategic Grain Reserve

491. Mr Speaker Sir, the Budget has had to intervene in support of grain procurement through the GMB, which should ideally be a buyer of last resort.

492. So far, this has been possible due to the need for Government to rebuild the Nation's Strategic Grain Reserves and the fact that the marketable surplus has been relatively modest. Current stocks held by the GMB are around 300 000 tons of maize which will necessitate further procurement in the 2011 marketing season.

493. However, as we fully capacitate the Strategic Grain Reserve stocks this will not be possible, hence, the need for us to develop market structures to enhance the marketing of agricultural produce including grain procurement.

Commodity Exchange

494. Pursuant to improving the country's agriculture marketing model, Government will by the beginning of next year introduce the Agricultural Commodities Exchange to facilitate the trade of agricultural commodities produced in the country.

495. This will open up the market, ensuring that agricultural produce has a ready and transparent market, with both producers and consumers getting best possible prices and that way resolving some of the pricing disputes being experienced.

496. Furthermore, payments will be prompt, with forward contracting available for some farm produce to enable farmers get part payments before delivery.

497. The new market would offer opportunity for the pricing of domestic agro-produce in line with prevailing prices on the international commodities market, providing buyers beyond our borders the platform to participate in the marketing of our agricultural commodities.

498. Introduction of a commodity exchange should also allow farmers, including small holder communal ones, to benefit from development of agricultural produce facilities that will enhance farmers' ability to manage produce supply in line with market demand.

499. This allows for the avoidance of seasonal over and under supply situations that destabilise prices and prejudice farmers.

Livestock Production

500. Whilst Government attention and support over the years has prioritised the production of grain and other cereal crops, very little support has been given for livestock development. This has resulted in significant depletion in the population of livestock, which also has undermined agriculture productivity.

501. Sustained agriculture production also requires focusing on livestock development. This entails intervening on livestock development programmes targeting livestock breeding, training of livestock farmers and strengthening of veterinary services for animal disease control and prevention, among others.

502. In support of the above livestock development programmes, a budget allocation of US$7 million is being set aside to grow the population of livestock in 2011 as indicated in the table below.

Livestock Class	Current Population	Target Population
Beef	5 160 000	5 800 000
Diary	40 000	44 000
Sheep	391 000	470 000
Goats	3 321 000	4 000 000
Pigs	202 300	380 000
Broilers	11 500 000	13 800 000
Layers	10 000 000	12 000 000

Irrigation Development

503. Mr Speaker Sir, notwithstanding that the country has a significant number of water bodies, drought remains a major source of national food insecurity in the country.

504. Even in non drought years, prolonged dry spells drastically reduce yields as our agriculture production is mainly rain fed, whilst water bodies lie idle and most irrigation schemes are in need of rehabilitation.

505. The Budget will, therefore, place emphasis on rehabilitation of existing irrigation schemes, expected to enhance agricultural activity.

506. In this regard, resources amounting to US$11.8 million are being allocated to rehabilitate and expand 63 schemes that can be put under irrigation in rural communal areas.

Research and Extension Services

507. Sustaining agriculture productivity and food security hinges upon strengthening of agricultural institutions through research and extension services.

508. Research enables embracing advanced technology on hybrid seed varieties, livestock breeding and disease control and herbicides that supports the green revolution.

509. Successful implementation of these programmes will require a complementary role of effective extension services, meant to strengthen the capacity of farmers.

510. The 2011 Budget will also ensure provision of quality extension services to farmers through equipping institutions in extension services with requisite tools of trade and equipment, provision of decent accommodation to extension staff as well as enhancing support to agriculture training institutions.

511. In this regard, Government will capacitate agricultural research and training institutions to the tune of US$2.5 million in the 2011 Budget. This support will also accommodate transport requirements for extension workers to enable them cover adequately all the areas.

512. Furthermore, Government is also inviting private players in the agricultural institutions to complement its efforts.

Security of Tenure and Land Utilisation

513. The issue of security of tenure in Zimbabwe is critical. Resolution of this is required as a precondition to normal private financing of agriculture, as well as the return of a land market. Whatever tenure

system is chosen, it must surely provide for security, must be registrable, executable and must be transferable.

514. At the present moment, the Ministry of Lands and the Ministry of Justice are working on a registrable and executable 99 Year Lease to be protected by an Act of Parliament. For this Lease to be effective land surveys and demarcation of boundaries is necessary. I propose to make an allocation of US$1 million for these surveys.

INVESTMENT PROMOTION

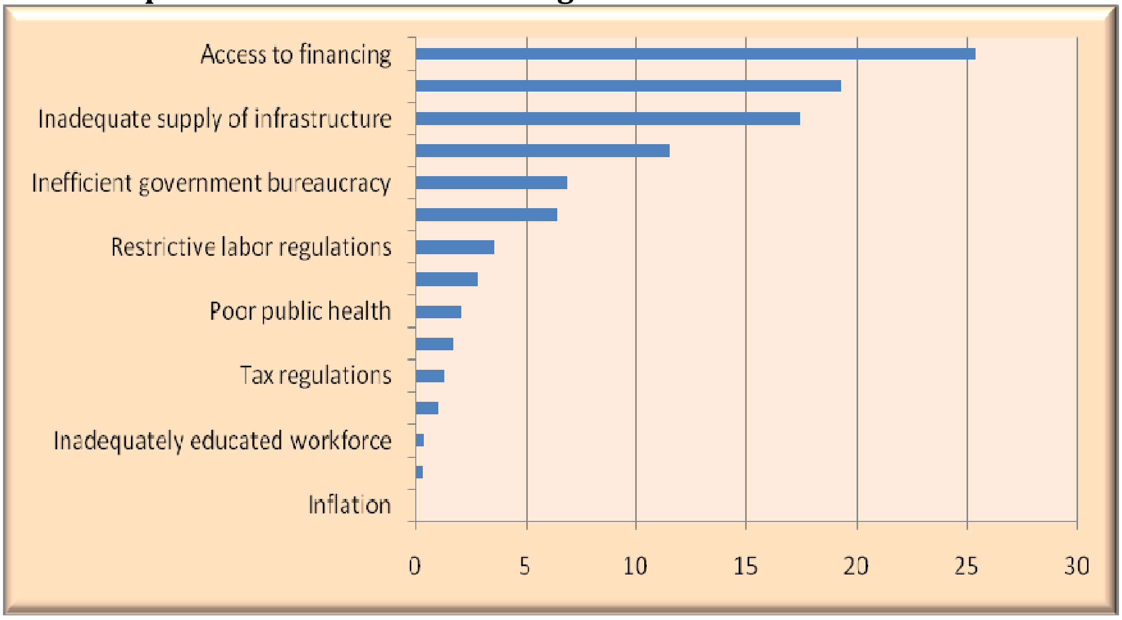
515. Mr Speaker Sir, our economy is small and fragile and it is imperative and obligatory to expand the productive base. In this regard, quite clearly foreign direct investment is an imperator.

516. The country's capacity to attract meaningful investment has been affected by a number of factors. These include general perception issues about the status and health of the Inclusive Government, the publication of the Indigenisation Regulations and lack of competitiveness.

517. The country's risk profile is high. Moreover, the country has been subjected to harsh ratings by both the Doing Business Index of the World Bank and the Global Competitiveness Report of the World Economic Forum.

518. The latter in its latest Report has downgraded Zimbabwe from 133 to 136 due to the following factors:

The most problematic factors for doing business in Zimbabwe



Source: World Economic Forum, Global Competitiveness Report 2010 - 2011

One Stop Shop Investment Centre

519. Mr Speaker Sir, it is, therefore, critical and imperative that Zimbabwe develops a well articulated and well communicated Investment Strategy which removes any investment impediments. The strategy will entail the need to streamline investment approval processes, among others.

520. Strategies to improve investment environments in several countries on the continent, notably Uganda, Rwanda, Zambia, Botswana, Egypt, have benefitted from implementation of measures to streamline their investment approval processes.

521. Central to this has been transformation of multiplicities of investment approval and licencing agencies into One Stop Shop Investment Centres.

522. Mr Speaker Sir, in our case, the coordination of our investment approval processes remains poor, often failing to facilitate foreign direct investment opportunities.

523. Furthermore, the current arrangements provide for determination for an Investment Licence application through the Zimbabwe Investment Authority (ZIA) to take as long as 49 days.

524. Government is, therefore, streamlining and harmonising the processing of investment proposals through legislation to establish a One Stop Shop for investment approvals.

525. This entails transforming ZIA into a One Stop Investment Centre, bringing together key departments involved in investment facilitation.

Leveraging Natural Resources

526. Mr Speaker Sir, in mobilising investment and the necessary lines of credit, it will be critical that we leverage the country's natural resource endowment, including our mineral wealth.

527. In this regard, we need to avoid the entrapment of dependency on the production and export of raw materials. Hence, it will be necessary that we propose measures in support of increased value addition of the country's minerals and agricultural commodities, which is also a central tenet of our re-industrialisation strategy.

528. A thorough authentication process through a comprehensive geological survey is a necessary condition for the validation of the country's mineral resources and reserves. This process is key for the following reasons:

- Assist the country to avoid financial prejudice as some investors have a knack of understating the value of underground mineral assets;
- An internationally acceptable validation exercise guarantees potential investors surety of returns on their investments in the exploitation of mineral resources; and
- To ensure proper planning in the utilisation of the mineral assets for the benefit of the economy.

529. Furthermore, the exploration and validation process requires a considerable amount of technical, human and financial resources, which the country will have to mobilise.

530. In addition, the exploitation of such mineral resources requires that Government launch an intensive investment drive, most of which will appropriately be in form of joint ventures between local and external companies - a process which may take longer to fruition.

Diaspora Participation

531. Supportive measures will also be necessary to ensure the broader participation of our non-resident Zimbabweans in the development of our country.

Labour Market Flexibility

532. Mr Speaker Sir, it will be necessary that our labour laws are supportive of Government's quest for increased investment and the competitiveness of Zimbabwe's productive sectors.

533. In this regard, I further call for introduction of measures to re-orient our labour practices and laws in line with regional and global standards, addressing inflexibility over labour rationalisation and shedding off of any arising excess labour.

534. Furthermore, remaining competitive in the globalised production and trading environment demands that our businesses relate salary and wage determination to productivity.

535. The review of the role of arbitrators in awarding wage adjustments that bear no relationship to the competitiveness of most industries and indeed the entire economy is unavoidable.

536. Failure to nip in the bud unsustainable wage awards by arbitrators will be swiftly punished in the global village as our products price themselves out of the market, both locally and in the export markets.

537. In this regard, review of the Labour Law, consistent with the provisions of the Social Contract, will be undertaken and will have to be finalised in 2011.

RESOURCE MOBILISATION

538. Mr Speaker Sir, as we consolidate macro-economic stability, support agriculture and food security, as well as deal with the infrastructural barriers to economic recovery, it will be necessary that the 2011 Budget contains measures in support of resource mobilisation.

Lines of Credit

539. Given challenges firms face with regard to working capital, improved access to domestic and foreign lines of credit will be critical.

540. Mr Speaker Sir, I have already alluded to the challenges Government is facing with regard to the operationalisation of launched facilities.

541. It is, therefore, necessary that as we pursue strategies to quickly activate some of the facilities we have been negotiating, it will be important that we seize all the opportunities on potential new lines of credit.

542. This, Mr Speaker Sir, principally includes making sacrifices on our own Budget resources to begin to allow us to provide for the requirements of our productive sectors.

543. Pursuant to this, I am pleased to report to Honourable Members that I will be proposing availing additional resources towards provision of medium term loan capital in support of the realisation of capacity utilisation across the various industries.

544. I, therefore, propose to allocate some US$50 million at interest rates of LIBOR + 5% to complement the US$70 million ZETREF Facility which we launched on 30 August 2010 in conjunction with Afreximbank.

545. This will support the acquisition of equipment, purchase of raw materials, as well as spare parts, with interested companies applying through their banks.

546. I have already written inviting Afreximbank to join us in this endeavour by considering providing additional lines of credit to complement the US$50 million the Budget is providing.

Savings Mobilisation

547. Mr Speaker Sir, our recovery cannot rely solely on dependence on external financial support and lines of credit.

548. An environment where the general public continues to see value in holding savings in pillows and mattresses for fear of losses when deposited with banks can only promote a cash economy. The attendant risks are greater informalisation of business activity, undermining domestic savings mobilisation.

549. Put simply, Honourable Members, we cannot continue to cry over illiquidity and limited lines of credit while at the same time our financial system is not reaching out to new clients by introducing new products that attract the large pool of investible resources that the public continues to hold outside the financial system.

550. I will, therefore, be working with our financial sector to boost the realisation of domestic investible surpluses through our banking system.

551. Measures in support of domestic resource mobilisation will include:

- Increasing confidence in our banking system, through encouraging financial institutions to offer realistic interest rates on deposits as well as levying reasonable fees and charges.
- Introduction of more interest bearing instruments on both the money and equities markets, including reactivation of the domestic bond market.
- Encouraging non-resident Zimbabweans to invest in our financial markets.
- Promoting exportation of value added or beneficiated products.

552. I will also be proposing some fiscal incentives in support of the development and re-introduction of instruments that will alter the term structure of our deposit base beyond call money, which currently accounts for close to 90% of banking sector deposits.

553. The financial sector should take advantage of this, formulating strategies to reach the un-banked sections of the economy, and therefore, enhancing financial inclusion.

554. This should include use of developments in ICTs to introduce technology based payment services to increase outreach to both the

banked and un-banked, including the generally un-accessed rural population.

Micro-Finance Revolving Fund

555. Micro-finance institutions support poverty reduction efforts of Government through playing a pivotal role in providing financial services to the disadvantaged small and medium-scale enterprises as well as other low income clients and the self employed, who ordinarily lack access to banking and other related services.

556. A number of such micro-finance institutions were forced to close during the period of hyperinflation, dropping from a peak of 1 800 in 2003 to a low of 27 in 2008.

557. In order to resuscitate this sector, which enhances financial inclusion through the provision of financial services to previously un-banked low income groups, Government will mobilise resources for seed money for the setting up of a Micro-Finance Revolving Fund.

558. CBZ Bank and the Arab Bank for Economic Development in Africa (BADEA) will be each availing resources to the tune of US$5 million to the Fund, raising the total capital to US$15 million.

559. This Fund should facilitate access to reasonably priced lending by marginalised groups.

Reducing Vulnerabilities in the Financial Sector

560. Mr Speaker Sir, sustainable mobilisation of savings is critically dependent on sound financial institutions.

561. It is in this light that our monetary authorities maintain vigilance over monitoring of oversight controls and surveillance to deal timeously with all arising potential risks to the stability of our financial system.

562. Government, on its part, will ensure all the necessary support to facilitate maintenance of best practices in the financial sector, including at the Central Bank.

Deposit Protection Scheme

563. Mr. Speaker Sir, in addition to the Lender of Last Resort function of the Reserve Bank, Government also attaches importance to the role of the Deposit Protection Scheme in increasing confidence in the banking sector through assured protection of depositors' moneys in the event of bank failures.

564. In view of this, Government will support the mobilisation of resources towards the Deposit Protection Fund managed by the Deposit Protection Board. These funds are meant to recapitalise the Fund which had been decimated by hyperinflation.

565. Furthermore, Treasury is in the process of reforming the Deposit Protection Scheme from being a "Pay Box" with limited powers under the Reserve Bank to an operationally independent corporation with an expanded mandate.

566. The Deposit Protection Corporation Bill, whose principles have already been approved has been gazetted and will soon undergo the Parliamentary enactment process. Enactment of the Bill is expected by the end of the first quarter in 2011.

BUILD UP OF RESERVES

567. Mr Speaker Sir, it is an open secret that the major reason I am proposing the continuation of cash budgeting during 2011 is the reality that we are not only on our own, but have no fallback position with regards to foreign exchange reserves.

568. This, against the background of absence of external financial support, is not sustainable.

569. Targeted build up of reserves, even though initially at modest levels, allows us a cushion against unforeseeable shocks with potential to impact negatively on the performance of the economy.

570. These range from drought induced food deficits, commodity price shocks which impact on both import costs and export earnings, regional and global financial crises, among others.

571. It is against this background that many countries now set themselves targets for minimum holdings of foreign currency reserves. Notable examples include China, India as well as most emerging market economies, including many in sub-Saharan Africa.

572. Hence, I propose that as we implement the 2011 Budget we begin to set aside resources towards the building up of the Nation's foreign currency reserves, targeting initially an import cover of three months by the end of 2012.

573. This, Mr Speaker Sir, is critical also as a buffer providing for some minimum level of fiscal space.

574. The gradual build-up of reserves should see us comply with the SADC target of six months of import cover under its macro-economic convergence criteria.

RATIONALISATION OF PUBLIC ENTERPRISES

575. While the introduction of the multi-currencies and dispensation to charge economic tariffs since 2009 assisted most of the public entities in terms of foreign currency availability for their critical imports as well as viability, there are still a number of challenges which undermine the performance of these entities. These range from capitalisation, debt, management and human resources.

576. As a result, key public entities such as Air Zimbabwe, Grain Marketing Board, Cold Storage Company, Zimbabwe Iron and Steel Company (ZISCO), Cold Storage Company (CSC), National Oil

Company of Zimbabwe (NOCZIM), Agricultural Bank of Zimbabwe (Agribank), National Railways of Zimbabwe and ZESA/Zimbabwe Power Company (ZPC) continue to perform dismally as indicated below:

Financial Statements: January- June 2010 for Selected Key Parastatals

Name of Public Enterprise	Revenue for the six months ending 30 June 2010	Operating Costs for the six months ending 30 June 2010	Staff Costs for the six months ending 30 June 2010	Loss for the six months ending 30 June 2010	Operating Costs as a %age of Revenue
Agribank	5,402,821	7,182,707	4,483,428	**(2,820,239)**	132.94%
Air Zimbabwe	26,503,443	41,112,906	5,262,232	**(14,609,463)**	155.12%
CSCL	1,354,968	4,361,557	1,172,604	**(3,036,248)**	321.89%
GMB	21,960,984	27,690,335	13,697,593	**(4,505,205)**	126.09%
NOCZIM	119,228,025	130,692,299	2,980,786	**(11,942,685)**	109.62%
NRZ	32,266,580	41,887,649	18,506,305	**(9,621,069)**	129.82%
Total					

Source: MOF

577. All the above operated with high expenditures, particularly related to staff costs which were all well above revenues, resulting in huge loses. Ironically these losses end up being assumed by the fiscus.

578. In order to limit exposure to parastatal losses and improve their performance, Government is carrying out a public enterprises reform programme, which entails either restructuring, commercialisation or privatisation of respective entities on a case by case basis.

579. Consequently, Government launched the first phase of the reform programme, targeting ten major enterprises namely: Agricultural Bank of Zimbabwe (AGRIBANK), Air Zimbabwe, Grain Marketing Board (GMB), Cold Storage Commission (CSC), Net-One, Tel-One,

Zimbabwe Iron and Steel Company (ZISCO), National Railways of Zimbabwe (NRZ), National Oil Company of Zimbabwe (NOCZIM, ZESA/Zimbabwe Power Company.

580. In the restructuring exercise, Government will take advantage of the ZISCO's restructuring model under which about two thirds of the shareholding was successfully disposed to a private investor, who in turn assumed ZISCO's debt, undertook to refurbish the plant and machinery and development of the human skills base. Over and above this, the investor will make some payment to Government for the disposed shares.

581. Furthermore, in order to ensure adequate and uninterrupted power supply, the new partner has committed to establish an independent power plant dedicated to ZISCO operations.

582. This model, which is transparent and reflective of a win-win situation, will therefore be applied as a reference guide and be replicated, where feasible, to the remaining nine parastatals identified for restructuring under Phase I.

Corporate Governance Framework

583. As elaborated in the Three Year Macro-Economic Policy and Budget Framework: 2010-2012 (STERP II), Government emphasised the need to come up with the Corporate Governance Framework for parastatals in order to improve efficiency, effectiveness,

transparency and clarity in terms of responsibilities and accountability.

584. Mr Speaker Sir, I am pleased to advise that Government is finalising the Corporate Governance Manual for public enterprises. This manual is benchmarked on regional and international corporate governance best practices and is built on the Public Finance Act.

585. Some of the key issues covered by the Manual include principles of corporate governance, the role of shareholders, boards and senior managements, general meetings, financial governance, compliance and reporting, among other things. Public Enterprises and Parastatals are expected to comply with this Manual.

ARREARS CLEARANCE & DEBT STRATEGY

586. Mr Speaker Sir, the gains we have realised on the economic front have been experienced with very limited external financial support, in light of Zimbabwe's huge debt overhang.

587. On the other hand, sustainable economic development will require external support to augment domestic capacity. Realising this will require the strengthening of financial cooperation with both bi-lateral and multi-lateral cooperating partners.

588. I am, therefore, pleased to advise that Government has now approved the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy, our programme to facilitate re-engagement on arrears

clearance, new financing and a comprehensive debt relief programme.

589. The Clearance and Debt Management Strategy leverages on the gains from the macro-economic stabilisation measures contained in STERP I and II, as well as the country's resources for purposes of both economic development and debt clearance.

590. Mr Speaker Sir, it is paramount that we move with speed in the implementation of this Strategy, which will consist of the following processes:

- Reconciliation and validation of our external debt, working closely with all the creditors and other stakeholders.
- Re-engagement with creditors.
- Negotiating for arrears clearance, new financing and a comprehensive debt relief.
- Establishment and operationalisation of a Debt Management Office.
- Leveraging Zimbabwe's natural resources in pursuit of debt relief and development.

591. Once the debt relief programme is in place, re-engagement will initially focus on clearance of arrears to multilateral creditors, i.e. the IMF, the World Bank, the African Development Bank and the European Investment Bank.

592. This, Mr Speaker Sir, would pave way for debt relief through both Paris Club and non-Paris Club re-scheduling.

XI. SHARED TRANSFORMATION

INFRASTRUCTURAL BARRIERS TO ECONOMIC RECOVERY

593. Mr Speaker Sir, I have highlighted the need for the 2011 Budget to consolidate the macro-economic stability realised during 2009–2010 as well as supporting our quest for food security.

594. It will also be necessary that another pillar of the Budget Thrust in 2011 be measures addressing the removal of some of the Infrastructural Barriers and Utility challenges that remain a major constraint to domestic production and competitiveness, primarily owing to lack of resources for rehabilitation, maintenance and expansion.

595. STERP II has already outlined the detailed resource requirements for ensuring that our infrastructure is geared to meet the recovery and growth demands of the economy.

596. Government has, however, capacity limitations and, hence, prioritisation of projects with the highest positive impact on the overall economy and social well being of citizens becomes imperative.

597. Such prioritisation should recognise the synergies among different sectors as lack of progress in one sector may have adverse effects on the achievement of objectives in other sectors.

598. Equally important will be the bringing on board of other private players to complement Government capacity.

599. Accordingly, the 2011 Budget prioritises power, water and sanitation, roads, communication and social infrastructure in housing, health and education, focussing on the following:

- asset preservation to prevent further loss of value to assets and mitigate risks to lives;
- rehabilitation of run down infrastructure;
- maintenance to safeguard value, thereby, avoiding wasting resources on repeated rehabilitation;
- completion of on-going projects necessary to unlock value from infrastructure spending already made; and
- selected new infrastructure provision in critical areas.

600. Mr Speaker Sir, previous experiences demonstrate that a number of projects fail to take off owing to capacity gaps in implementing agencies and public utilities.

601. Therefore, institutional reforms will also be necessary to improve operational efficiencies, particularly those related to project planning, procurement processes and procedures, execution, contract management and monitoring.

602. Given the limited fiscal space, the targeted approach, which was initiated in 2010, will be pursued together with the strengthening of the Sinking Fund to ring-fence resources earmarked for expenditure on targeted projects.

Power

603. Honourable Members will all agree that a stable and reliable power supply is critical for sustainable economic development and, hence, this remains a priority for the 2011 Budget.

604. Power availability has remained depressed at around 1 200 MW. This is against the installed capacity of 1 950 MW and suppressed national power demand of 2 200 MW, forcing companies to resort to use of costly generators with negative effects on competitiveness.

605. The 2011 Budget, therefore, targets raising power generation to 1 650 MW in 2011 prioritising the rehabilitation of Kariba and Hwange power stations, thermal stations in Harare, Bulawayo and Munyati.

606. Support for the funding to replace transformers for the transmission network, and transformers and accessories for the distribution network will also be necessary.

Kariba Power Station

607. At Kariba South bank, the central focus will be on rehabilitation of the dam wall to ensure its safety. This involves refurbishment of the floodgate mechanism and strengthening of the plunge pool to prevent further erosion backwards to the dam wall.

608. I am, however, happy to note that the Budget will not have to make an allocation of the required amount of US$12 million to ensure a reliable output of 750 MW from Kariba Power Station as ZESA will meet this from own resources.

Hwange Power Station

609. The installed capacity at the plant is 920 MW. However, given the state of the infrastructure, electricity production is only about 750 MW.

610. To improve on generation, an amount of US$100 million is required for the upgrading and refurbishment of the following:

- Hwange Stage II turbines;
- Deka Pumping Station water reservoirs and treatment plant, operating at only 50% of capacity;
- Coal plant front end loaders, many of which are out of service, which limits the availability of coal for the plant and, hence, the amount of generation;
- Ash plant pumps, of which 50% are out of service;
- Ash lines, of which two of the four that convey ash from the boilers to the ash dam are operational.
- Hydrogen plant for cooling the six generators, and currently operating at 50%;
- Chlorine plant used to kill algae in the cooling water and towers, and is currently defective, that way reducing efficiency of the cooling process; and
- Switch gears.

611. Mr Speaker Sir, I propose to make an intervention to the tune of US$25 million towards rehabilitation works at Hwange directly from the Budget.

612. ZESA will provide an amount of US$31.5 million in support of the upgrading and refurbishment of the auxiliary service facilities at Hwange Power Station.

613. In this regard, it will be necessary that measures for a more aggressive approach by ZESA towards improving on its revenue collections and debt recoveries on electricity consumption be instituted with the support of Cabinet.

614. Mr Speaker Sir, I am pleased to acknowledge that Zim-Fund which is coordinated by the African Development Bank will also support to rehabilitate portions of the power supply network in Zimbabwe through undertaking selective rehabilitation of the Hwange Thermal Power Plant to the extent of US$30 million over a two year period.

Small Thermal Power Stations

615. Mr Speaker Sir, there are also some financial requirements for the rehabilitation works of the three small thermal power stations at Bulawayo, US$6.9 million; Harare, US$7 million; and Munyati, US$4.6 million.

616. Munyati Power Station, which has the capacity to generate up to 100 MW, is currently producing 30 MW. Rehabilitation of Harare Thermal Power Station should bring in 40 MW in 2011.

617. I propose to allocate US$5 million, with ZESA providing the balance from its own internal revenue generation and cooperation with other investors.

618. In this regard, there is scope for the revival of the Bulawayo Thermal Power Station at a cost of US$7 million in partnership with the Botswana Power Corporation. This will bring about 90 MW.

619. ZESA is also anticipating to increase power generation from small hydro power stations which include Mutirikwi, Kairezi and Manyuchi to come up with a combined 35 MW.

Transmission & Distribution

620. Mr Speaker Sir, resources amounting to US$65 million are required for the distribution and power transformers, insulators, circuit breakers, overhead conductors and accessories as well as installation of pre-paid meters.

621. I, therefore, propose to allocate an amount of US$5 million to complement on ZESA resources as well as that of other cooperating partners under the auspices of the AfDB managed Zim-Fund.

Demand Management

622. There is scope for reducing power demand by about 350 MW through implementing demand side management measures.

623. ZESA will, therefore, install and resuscitate the ripple relay system at an estimated cost of US$11 million which will enable them manage electricity consumption from geysers centrally.

624. Furthermore, ZESA will be procuring pre-paid meters at a cost of US$20 million from its own resources. This will enable ZESA reduce pressure on supply by saving about 350 MW, improve on revenue collection rates as well as reducing costs associated with meter readings.

625. ZESA will also be conducting nationwide awareness programmes, including in the print and electronic media on efficient use of electricity. This will include campaigns over the use of geysers as well as energy saving fluorescent light bulbs.

Rural Electrification

626. Mr Speaker Sir, funding under the Rural Electrification Programme are shared on the basis of a 60:40 distribution ratio between Government and the beneficiaries.

627. The 60% contribution by Government also includes the Rural Electrification Agency (REA) component which is funded through the **6%** ZESA levy on electricity consumption.

628. However, the high electricity payments defaults by households and industries to both REA and ZESA has meant low revenue inflows to

REA, hence, slowing down the implementation of most planned REA projects in rural areas.

629. In order to expedite implementation of planned REA projects in 2011 which require US$85.1 million, Government will step up its contribution towards the Rural Electrification Programme.

630. Government will contribute US$5 million whilst the balance will be met from resources generated through improved collections and debt recovery by ZESA of the REA levy.

631. Priority will be given to the completion of on-going projects and programme expansion targeting grid extension, rural education, health, renewable technologies, commercial centres and cottage industries.

Vandalism

632. Mr Speaker Sir, Government once again notes with concern challenges related to vandalism of the country's infrastructure.

633. This month's vandalism of the 330 KV Bindura – Dema grid that brings power from Hydro Cabora Bassa resulted in the loss of 150 MW imports from Mozambique.

634. Measures to deal with this menace, which also spans across other sectors, will be necessary.

New Investment

635. As the economy grows in the medium to long term, investment in energy will be critical and, hence, it is prudent that the country starts preparations for implementation of energy expansion programmes.

636. Planned power generation projects include the Lupane Gas Fired Plant capable of producing 250 MW, Hwange 7 and 8, 600 MW; Kariba South extension, 300 MW; and Gokwe North, 1 300 MW.

637. Implementation of the above projects will provide total additional power output of 3 950 MW at a total cost of about US$2.4 billion. The magnitude of such resources can only be raised from the market and, hence, the need to improve the regulatory and investment framework for the power sector to lay the foundation for mobilisation of private sector investment.

638. Government is, therefore, working on improving the existing PPP Framework to create an appropriate environment for private sector investment.

Alternative Sources of Energy

639. In STERP II, Government reiterated the importance of promoting alternative and renewable sources of energy for complementing traditional sources and also as a way of utilising the country's abundant natural resources. Opportunities exist in developing solar, wind and bio-fuel energy.

640. Hence, it will be necessary that we develop incentive measures in support of increased investment and reliance on alternative sources of energy.

Independent Power Producers

641. Given the unrestricted electricity demand of 2 200 MW, and the lack of domestic resources to undertake expansion projects, private players are being encouraged to invest in the sector so as to complement the current generating capacity.

642. In facilitation of private sector participation, Government will finalise the establishment of the regulator, necessary for building investor confidence, while ZESA will institute the necessary administrative arrangements on enhancing billing and revenue collection.

Water & Sanitation

643. Recovery of the water and sanitation sector is critical for sustaining economic activities in other productive sectors and containing the outbreak of water borne diseases.

644. While in 2009 and 2010, significant strides were made in improving water and sanitation services in urban areas, the 2011 Budget will focus on both urban and rural areas.

Urban Areas

645. Delivery of key services such as water supply and sewage disposal remain a challenge in most urban centres following the devastating

impact of the economic downturn during 2000 – 2008. Currently, most urban centres and local authorities generally lack adequate revenue inflows as a result of low economic activity, following the closure of many companies while those which survived, operate at low capacity.

646. Water supply and sanitation problems are also compounded by the tremendous rural-urban migration as economic hardships, coupled with droughts forced a number of inhabitants of surrounding communities to flock to towns in search of survival opportunities.

647. Furthermore, frequent power cuts, lack of equipment for transportation of the solid waste and its maintenance, coupled with technical capacity constraints are also affecting efficient service delivery in water and sanitation.

648. Government, in the 2011 Budget, will continue with the targeted approach which has greatly improved water and sanitation in the cities of Harare, Bulawayo and Gweru.

649. The 2011 Budget will particularly focus on the completion of on-going water supply programmes in Harare, Bulawayo and Gweru under phase two of the targeted approach.

650. Similarly, the targeted approach will be applied to other provincial capitals of Chitungwiza, Kadoma, Chegutu and Ruwa towards the rehabilitation of water and waste water treatment networks.

651. Out of the total requirements amounting to US$1.5 billion by local authorities, I am providing US$32 million in order to address water and sewer challenges for local authorities. This includes a provision of US$2 million for installation of dedicated power lines to water pumping stations.

652. I have also made a provision of US$27.1 million under ZINWA. Included in this amount is a sum of US$22.1 million for ongoing water pipeline projects for Mtshabezi and Wenimbi. The balance seeks to address rehabilitation and upgrading of water supplies facilities for small towns and growth points.

653. The above provisions, however, will fall short of required resources and, hence, local authorities will meet the balance from own resources.

654. It is, therefore, important that local authorities institute measures to strengthen their revenue generation capacity, including promoting public private partnerships in the provision of various services such as billing, collection, pump maintenance and repair.

Rural Areas

655. Mr Speaker Sir, the country's once impressive rural water and sanitation programme has been on the decline owing to breakdown of maintenance systems, lack of spares and the stagnation of many community related projects.

656. The 2009 Water and Sanitation Inventory estimated that 75% of the rural water infrastructure is not functioning and this has affected smooth functioning of many water systems, including boreholes, pumping equipment and distribution systems and irrigation.

657. Priority will, therefore, be on capacitating all the agencies that deal with provision of water and sanitation in the rural areas, particularly DDF and Rural District Councils. The objective is to enable them respond adequately to water and sanitation requirements through rehabilitating existing water points and establishing new ones to meet demand.

658. Accordingly, I am providing US$7 million to DDF towards rehabilitation and drilling of new boreholes.

659. Such intervention should improve access to clean and safe water for drinking, hygiene and cooking. Water availability will also support income generating activities and food security projects.

660. ZINWA will also be expected to strengthen its monitoring mechanism and enforcement of regulations on protecting water sources from abuse and contamination particularly from industrial players.

661. Siltation has also become a major problem affecting rivers and dams and, hence, local authorities in collaboration with communities and environmental agencies will be expected to strengthen awareness campaigning programmes in this area.

Dams

662. Mr Speaker Sir, a number of important dam projects could not be completed owing to resource constraints during and post crisis era. These include Tokwe Mukosi, Mtshabezi, Gwayi – Shangani and Kunzvi, which are essential in supporting key irrigation projects and water supply for cities such as Harare and Bulawayo.

663. In order to derive value and economic benefits from these outstanding projects, I am therefore providing US$20 million for Tokwe Mukosi, and US$4 million for Gwayi – Shangani dams for on-going construction works.

664. With regards to Kunzvi dam, it is essential to start the implementation of this project in order to avert the eminent water shortages for Harare and its other satellite towns of Ruwa, Chitungwiza and Norton.

665. I am, therefore, proposing to allocate US$2 million for the development of the Master Plan.

666. With regards to dam projects such as the Kunzvi Dam, alternative financing arrangements such as the PPPs model will be pursued.

Aviation

667. Mr Speaker Sir, immediate requirements in the aviation sector include upgrading and development of aviation infrastructure

particularly for Harare International, Joshua Nkomo and Victoria Falls Airports.

668. The focus of the 2011 Budget will, therefore, be to capacitate the CAAZ to complete the on-going rehabilitation and upgrading works at the above airports.

669. At the Harare International Airport, the focus will be on completion of works on the runway, taxiways, airfield ground lighting system as well as upgrading of water and sewer systems and I have earmarked US$12.1 million for the works.

670. For J.M. Nkomo Airport, a provision of US$5 million will cater for outstanding works at the terminal building as well as construction of a control tower while, Buffalo Range Airport will receive US$1 million for rehabilitation of the terminal buildings.

671. The upgrading of Victoria Falls and Buffalo Range airports will be conducted in conjunction with private financial support.

672. CAAZ will complement the above Government interventions by undertaking all the programmed service maintenance of all the other infrastructure within terminal buildings. This will include upgrading of such facilities as carousels and ablutions.

673. Over and above the ongoing projects, CAAZ will also undertake a number of critical projects meant to enhance security and safety. These include the erection of a dedicated power line in order to

guarantee uninterrupted power supply and upgrading the standby generator electrical power back-up system to levels adequate for normal Harare Airport operations in times of ZESA power outages.

674. Modernisation of air navigation equipment, restoration of passenger flight information systems at all airports, maintenance and upgrading of surveillance radar at Harare Airport as well as other related security and communication systems will also be undertaken.

675. For the above new projects, I am allocating US$1.6 million.

676. Government will, in the meantime, formulate and implement the Civil Aviation Policy Framework. This Framework will entail restructuring of CAAZ into an independent Regulatory Authority. The CAAZ will also be required to consider concessions for the management of some of its airport infrastructure.

Roads

677. Sustained economic recovery relies on an efficient and well interlinked road network system. However, during my consultative meetings with local authorities, it became apparent that over 44 671 km of the country’s road network has outlived its lifespan and, therefore, require major rehabilitation works in order to restore them.

678. The rehabilitation and development of the country’s road network continues to be hampered by inadequate financial resources and

skilled personnel. Destruction of roads by overloaded heavy goods vehicles, long projects roll out lead time and theft and vandalism of road equipment are also contributory factors.

679. The poor state of our roads has been reflected through the high number of accidents.

680. Whilst the introduction of toll fees has facilitated the mobilisation of resources for rehabilitation and maintenance of the road network through ZINARA, these have however, fallen short of the country's road rehabilitation requirements and let alone new projects.

681. As a result, most road networks in both rural and urban areas continues to deteriorate with most roads no longer trafficable.

682. Government will, therefore, strengthen support to Urban Councils, Rural District Councils and other Local Authorities through the following interventions:

Rural Roads

683. The gravel roads which are found mainly in the rural areas require regular maintenance to enable provision of regular transport services for local commuters and supporting marketing activities particularly agricultural produce to markets.

684. The strategy is to capacitate the country's 60 Rural District Councils/DDF with a package of basic Unit road maintenance

equipment for the rehabilitation and maintenance of rural roads programmes.

685. In order to improve the capacity of rural district councils and the District Development Fund, Government is making a provision of US$30.3 million for the procurement of road maintenance equipment targeting one Maintenance Unit per each district.

686. This injection together with the support from ZINARA allocations should enable the road authorities to effectively maintain the road network.

687. The list of the roads that are earmarked to undergo rehabilitation per local authority is attached to this statement.

Urban Roads

688. In entirely all urban areas, the road network is infested with potholes, malfunctioning traffic lights, absence of carriage markings and road signs posing risks to both the general public and motorists through accidents and costly vehicle damages.

689. However, most local authorities have no capacity to regularly maintain their roads which is compounded by the shortage of road maintenance equipment.

690. In support of urban local authorities, Government will complement ZINARA allocation and local authority own resources by targeting

rehabilitation and maintenance of major urban arteries in the Central Business Districts of Cities and Towns.

691. In order to build capacity for local authorities and enable them attend to road rehabilitation and maintenance requirements, I am allocating US$16 million for the procurement of equipment for resuscitating maintenance units. The initial target will be two maintenance units in urban authorities and one maintenance unit for other small towns.

692. A maintenance unit for an urban authority will require the following:

- tipper truck;
- grader;
- bitumen distributor;
- front end loader;
- motorised water bowser;
- bulldozer;
- chip spreader;
- compactor; and
- road marking machine.

Toll Financing

693. Toll financing has become an important source of revenue complementing budgetary resources in road maintenance programmes. In 2010, a total of US$55 million was raised between January and September by ZINARA for direction towards the

maintenance of the road network. However, only US$25.1 million had been disbursed by end of October.

694. However, most toll gate points remain rudimentary, requiring the establishment of proper structures. Already in 2010, work has started on a number of toll gates structures and in 2011, ZINARA will prioritise the completion of work in progress at toll gate infrastructure points.

695. Furthermore, construction of infrastructure at the remaining toll gate points, as well as operationalisation of planned toll gates sites will be prioritised.

Trunk Roads

696. The deterioration in the country's trunk roads infrastructure has compromised the safety of road users resulting in increasing number of reported accidents.

697. The 2011 Budget will also prioritise resource allocation towards rehabilitation, maintenance and development of trunk roads including installation of road signals as well as introduction of National Road Safety Programmes.

698. In this regard, I have made a provision of US$10 million for trunk roads rehabilitation and dualisation of our major highways.

699. I also propose to allocate US$7.2 million towards on-going construction of new and damaged bridges.

700. Government will also institute measures that promote use of railways for bulk transportation to avoid damage of the road by overloaded heavy goods vehicles.

Private Participation in Roads

701. Mr Speaker Sir, the above allocations reflect a meagre amount of what is required to cover road development requirements of the country.

702. Hence, Government is currently engaged with potential private sector investors in win-win partnerships in mobilising additional resources under the Public Private Partnership Framework.

703. This includes concessioning the most trafficked sections of the county's major roads such as, Harare-Beitbridge, Harare-Chirundu, Harare-Mutare and Harare-Bulawayo.

704. Already, Government has engaged the Development Bank of Southern Africa (DBSA) which is carrying out feasibility studies on the rehabilitation and upgrading of Harare-Beitbridge-Chirundu roads. Other trunk roads connecting the country to ports of entry are also being targeted for such partnerships.

Railways

705. The performance of the NRZ continues to be hamstrung by inadequate funding for the maintenance and the rehabilitation of the

rail track infrastructure, rolling stock, over-head power lines, signalling and tele-communication systems.

706. These challenges reduced the capacity of NRZ from 18 million tons in peak period in 1998 to 4 000 tons by 2010.

707. Requirements for the NRZ infrastructure rehabilitation and maintenance far exceed budgetary capacity. Hence, the 2011 National Budget interventions will be limited to the on-going basic refurbishment programme of wagons, locomotives, track and signal systems, in order to sustain the current capacity.

708. Government is therefore setting aside US$15 million in the 2011 Budget in support of this routine maintenance and some rehabilitation programmes.

Restructuring of the NRZ

709. Successful turnaround in NRZ can only be realised through partnership arrangements between Government and the private sector. However, private sector participation will require a clear restructuring strategy and road map.

710. Government will therefore, pursue the appropriate restructuring model for NRZ. Such model will provide for the unbundling NRZ into:

Rail Track Network

711. Track and Signalling infrastructure operated and maintained by NRZ will be under the auspices of the NRZ rail track network Master Plan as outlined in STERP II.

Passenger and Freight Rail Services

712. Public private partnership will support new investment in appropriate carriage coaches, locomotives and wagons for freight, inter-city and commuter train services.

Information Communication Technologies (ICTs)

713. Mr Speaker Sir, ICTs are a critical **champion issue** in the 2011 Budget. Modern technology is the singular foundation of **Shared Transformation** the world over. It has been shown that a mere 10% increase in the use of mobile phones in any one given country will increase GDP by 1%.

714. In Zimbabwe, ICTs have become so important that in 2009 they contributed 15.2% to GDP, second only to agriculture which was at 15.5%.

715. The fact of the matter is that Zimbabwe's ICT infrastructure and network needs massive investment. There are only three mobile telephone operators, operating in the 900/1000 MHz, with subscribers of over 6 million and a mobile penetration rate of 51%. There are less than 3 000 base stations, 9 mobile centres, 5 mobile gateways and 5 terrestrial radio links.

716. The biggest challenge, therefore, is to develop fibre optic broad band infrastructure for the whole of Zimbabwe that will be linked to cross border networks.

717. In 2010, the sum of US$7.7 million was released towards the development of fibre optic broad band infrastructure between Harare and Mutare.

718. The project, which is expected to be commissioned in December 2010, will facilitate the country's connectivity to the undersea cable through Mozambique, with benefits accruing on increased traffic in voice, radio, TV, internet, data, ATMs, e-learning, e-medicine, mobile phone, and railway signals among other benefits.

719. The 2011 National Budget will, therefore, focus on Harare-Bulawayo- Beitbridge and Harare – Masvingo – Beitbridge fibre optic cabling with a total distance of about 1 340km. I propose to set aside US$15 million for this project.

720. Such investment will reduce the cost of doing business, increase speedy communication within the country through improvement in the broadband connectivity.

721. The completion of the fibre optic cabling across the length and breadth of Zimbabwe is a must do. This project will allow real **Transformation** resulting in increased national teledensity, increased national mobile density, increase in PC penetration and internet connectivity and most importantly, set the basis for convergence and last mile connectivity.

Complementary Policy Measures

722. The completion of the national back bone alone, without requisite policy measures and policy direction, will be meaningless. A number of things need to be done which include the following:

- Enactment of a new ICT Bill;
- Rationalising, cooperation and infrastructure sharing amongst players;
- Enactment of legislation that guarantees ICT literacy, the development of ICT curriculum, in particular amongst women, children and people living with disabilities;
- Support for local software developers;
- Rationalisation and commercialisation of NET-ONE and TEL-ONE;

Community Information Centres

723. **Shared Transformation** will require that rural and remote communities are also part of the internet revolution. The establishment of Community Information Centres wherein members of the public has access to communication facilities in particular e-mail, internet and mobile communication is critical.

724. In this regard, I therefore, propose to allocate the sum of US$1 million for Community Information Centres.

Private Sector Initiatives

725. The ICT infrastructure development is also benefiting from private sector initiatives, supported through considerable off-shore financing. The duty relaxation on some communication accessories announced by Government in the 2009 Budget has also reduced importation costs for ICT equipment.

726. As a result, private mobile service providers have increased the number of base stations and hence the number of subscribers from less than 2 million in 2009 to 6.2 million in 2010.

Rural Telecommunication

727. Government will also undertake a deliberate initiative of deploying ICT services in rural, remote and under serviced areas with the support of the Universal Services Fund. Under this programme, licenced operators will be required to provide these services through shared infrastructure, whilst internet based services will be provided through a wide network of Post Office infrastructure.

E-Government

728. In order to modernise Government information systems, Government is providing US$2 million towards the ongoing e-Government programme, which has seen the creation of websites for all Ministries.

729. The programme will enable citizens access government information and services without waiting in queues, travelling long distances to Government offices.

E-Learning

730. This programme which commenced in 2010 will be continued in 2011 targeting provision of a PC to each and every classroom for 60 schools at a total cost of US$2 million.

National Systems

731. Government runs critical National Systems such as the salary payroll, state pensions and social welfare. These systems require upgrading to improve efficiency and eliminate discrepancies. An allocation of US$1.2 million is being set aside in the 2011 Budget for the upgrading of these systems which will result in cost savings, reduction in the lag on transmission of data and improved accuracy of data.

Home Affairs Command and Control System

732. It is the constitutional mandate of the Zimbabwe Republic Police to provide security to the citizens of Zimbabwe, a task which requires a modern, dedicated and ICT imbedded Police.

733. Currently, our police stations represent "desolate colonial museums," where old Remington typewriters are used to record warned and cautioned statements from accused persons.

734. There is no centralised command and control system and, more importantly, data capturing is compromised in the absence of modern ICT base gadgets.

735. One of the areas that is suffering is the absence of a finger print data base. Without this data base, habitual criminals get away with previous convictions by simply changing names.

736. The development of an elaborate suite of crime management is critical. The Ministry of Home Affairs itself had started working on the Home Affairs Command and Control System (HACCSY), a noble idea.

737. It is important that a new ICT control system be developed for the Zimbabwe Republic Police. To cut costs, the role of Ministry of Information Communication and Technology will, therefore, be essential.

738. I, therefore, propose to allocate an amount of US$2 million to the development and capitalisation of an integrated ICT system and network in the Police.

739. The development of an automated Finger Print Identification System and Data Base is also essential to any Police Force, I therefore propose to allocate an amount of US$3 million towards this.

Universal Services Fund

740. The Universal Services Fund was set up in terms of Part X of the Postal and Tele-Communications Act Cap 1205. The objectives of the Fund are primarily to:

- Make tele-communication grants to local authorities;
- Finance ICTs development to underserviced areas and community areas

741. Mr Speaker Sir, it is important that the Universal Services Fund fulfils its Statutory mandate. Failure to appropriately apply resources of the Fund will necessitate interventions by Government over the use of the funds in question, in consultation with the relevant Ministers.

Research and Development

742. Technological innovations have the potential of accelerating economic growth and productivity, creation of new enterprises and improvement in the competitiveness of locally produced goods.

743. The country has, unfortunately, been unable to tap on the intellectual capital currently existing in the economy due to the fragmentation of current research activities which has made it difficult to commercialise some research findings.

744. Government, through the Research Council of Zimbabwe, has started the process of consolidating and prioritising current research work

in the country. This will facilitate the formulation of a holistic policy towards research, science and technology capacity building initiatives which will enable Government intervention through incentives aimed at encouraging private sector participation to promote technology transfer and commercialisation.

745. The 2011 Budget, therefore, has made provision for research and development through our tertiary institutions, SIRDC and agricultural research institutes.

746. In addition, an allocation of US$1 million for the Innovation Fund under the Ministry of Science and Technology Development will ensure that identified projects will be fully commercialised during the year.

National Housing

747. A number of local authorities face shortage of land for reducing the existing high housing backlog. Government will, therefore, work with local authorities in land identification and further collaborate with the private sector for the land servicing and housing construction.

748. Furthermore, Government will prioritise the completion of Government projects, some of which had been idle for the past 15 years. The focus will be on completing 160 projects which are almost 60% complete at a total cost of US$70 million.

Beitbridge Border Post Redevelopment

749. Mr Speaker Sir, growth in intra-regional trade traffic along the North-South Corridor has seen Beitbridge become the busiest port in the region, handling an average of about 500 trucks per day.

750. Hence, the congestion at Beitbridge Port has become a major bottleneck to trade and tourism, posing major opportunities for corruption and revenue leakages.

751. The chaotic situation currently obtaining at Beitbridge is estimated to cost over US$200 million a year in lost production, tourism traffic and revenue.

Challenges

752. The infrastructure at the Beitbridge Border Post needs to be upgraded in order to handle the increased traffic and overcome challenges related to the following:

- Centralised processes and inadequate facilities.
- Unorganised limited parking space and uncontrolled use of same within the Border Post and Beitbridge Town itself making the entire town one big truck yard.
- Lack of Commercial holding facilities for trucks and buses.
- Inadequate port handling facilities and equipment.
- Inadequate processing systems i.e. underutilisation of EDI and lack of real-time connectivity between the two border

authorities.

- Incoherent use of the 24 hour opening facility.
- Non-streamlined operational processes on the two sides of the Border Post.
- Incomplete projects due to lack of funding.
- Staff shortages due to lack of accommodation.
- Furtherance of personal interests and general indiscipline by travellers particularly truck drivers - typical of chaotic situations.

Build Operate Transfer Arrangement

753. Government has, therefore, found it necessary to embark on a programme to redesign and develop a modern user friendly Beitbridge Border Post at a project cost of US$91 million.

754. Given our limited fiscal space, Government has entered into an agreement to construct and upgrade facilities at the border post under a Public Private Partnership arrangement. Works to be undertaken include border post buildings, parking areas, housing, weighbridge and VID facilities and ring road.

755. The re-development of Beitbridge is being implemented under a 15 year B.O.T concession arrangement, with the Agreement entered into between Government and a South African company in September 2010 in line with Government's Public-Private Partnership policy.

Scope of Works

756. Central to the project master plan is the smooth flow of traffic through the border post by creating traffic separation routes for the main categories of traffic namely commercial, buses/kombis, private motorists and pedestrian traffic. This entails constructing new processing points, building road networks and related parking areas for the different type traffic.

757. Perimeter fencing backed by patrol roads and gate control infrastructure will be put in place to enhance security, curb traffic leakage, revenue loss and undue stay in the border post. Hopefully this will also discourage corruption within the border post.

758. In addition ancillary facilities and infrastructure such as staff housing, upgrading of the road network leading to and from the border post, upgrading of warehousing facilities, lighting and weigh bridge relocation are part of this project.

759. The project to re-develop Beitbridge Port will dramatically reduce time spent by both passenger and vehicle freight traffic at the border post.

760. Implementation of this project will also entail building ancillary commercial parking infrastructure outside the border post, which infrastructure will be electronically linked to the in-border control centre. This will not only decongest the border post but also the border town.

761. Mr Speaker Sir, the design of the new border facilities will also cater for the eventual migration to the envisaged Beitbridge One-stop border post system.

762. The Beitbridge Local Authority will also need to ensure that its services and other complementary facilities are upgraded to complement this development.

XII. SHARED DEVELOPMENT

763. The implementation of pro-poor policies and increased expenditure on social services, in particular education and health, are necessary ingredients of a **Fair Economy.** Massive challenges exist in the social sectors in the aftermath of economic crisis of the past decade.

764. Mr Speaker Sir, no development can take place without addressing issues of education, health and social protection. **Shared Development** demands that we address decisively the issues of social delivery.

SOCIAL SERVICE DELIVERY AND POVERTY ALLEVIATION

765. Consistent with the thrust of spreading the economic benefits fairly to all sectors of the economy, Government through the 2011 Budget, will place greater emphasis on improving access to basic social services as part of its pro-poor development strategy.

766. In this regard, it will be necessary that the 2011 Budget capacitates the institutions of Government responsible for social service delivery, particularly in education, health and social protection.

EDUCATION

767. Mr Speaker Sir, for a long time Zimbabwe's education system was amongst the strongest in Africa but this is no longer the case. Declines and reversals have occurred which need attention. Key indicators reflect the decline:

Learning Outcomes

- Fewer than 20% 'O' level candidates attained a pass in 2009;
- Only 50% of registered students in 2009 wrote examinations;

Learning Environment

- 8% drop outs in the country for children between 6 – 17 years;
- At least 26% of primary classrooms are in need of repair;
- Serious absence of functioning toilets;
- 555 primary and 399 Secondary schools have no desks;
- Until recently, text book to pupil ratio was 1:15; and
- 24% of the teachers are unqualified.

768. The challenge, thus, facing the country is that of re-establishing the conditions of learning and, of course, respecting and restoring the status of the teacher. Needless to say this will require that significant

amounts of resources are placed in education, beyond the wages of teachers.

769. The starting point clearly, must be that of re-establishing the minimum conditions of learning.

Lower Education

770. Mr Speaker Sir, the challenges confronting our education system have seen extra lessons becoming the norm across the country, resulting in the exclusion of those students whose parents cannot afford. Furthermore, the mushrooming of backyard schools and colleges threatens to compromise the quality of education.

771. Lack of teaching, learning materials and equipment, buildings in need of rehabilitation, poor sanitation facilities at some institutions have all negatively impacted on the delivery of education.

772. Furthermore, while enrolment in both primary and secondary schools has recovered since 2009, high drop outs in remote rural areas due to high cost of books, uniforms and other associated expenses have become a concern.

773. In addition, secondary schools' teacher pupil ratio remains constant at about 1:24 in 2010, whilst significantly higher for primary schools at about 1:40 students per teacher. This is against the ratios of 1:31 and 1:25 for primary schools of South Africa and Botswana respectively.

774. According to the 2009 National Study of Schools, basic teaching and learning materials and equipment remain inadequate in most schools with one book being shared by an average of 20 students in some rural schools.

775. Infrastructure has also deteriorated with only about 37% of primary schools classrooms being rated adequate, another 37% requiring minor repairs and 26% requiring major repairs. Similarly, about 45% of secondary schools required minor repairs while 19% require major repairs.

776. Schools infrastructure shortages are also acute in newly resettlement areas and some high density urban areas. As a result, the hot-sitting arrangements still prevail, a situation which is compromising the quality of education.

777. As a result, the pass rate has remained subdued at 39.7% and 19.7% for Grade Seven and Ordinary Level respectively.

778. In pursuit of addressing the above challenges, the 2011 Budget will, therefore, focus on supporting the on-going rehabilitation works, expansion of facilities, upgrading of water and sanitation infrastructure and procurement of teaching and learning equipment at all levels.

779. The 2011 Budget interventions to re-invigorate schools build on the significant strides Government made in 2009 - 2010 to improve learning conditions through rehabilitation of infrastructure, purchase

of text books, teaching materials as well as normalising the management of examinations.

780. Allow me, Mr Speaker Sir, to acknowledge the support we have received from parents as well as development partners such as UNICEF who made substantial contributions towards education delivery, particularly on improvement in teacher remuneration and acquisition of learning materials, respectively.

781. The partnership between Government and development partners will be strengthened and extended in 2011 to other schools.

782. Government intervention will be targeted at water provision, teacher accommodation and computerisation.

783. In addressing the above challenges, Government has already empowered Schools Development Associations (SDAs) to deal with the development and management matters of their respective schools, consistent with the decentralised system of governance which has proved to be more effective.

784. In order to augment SDAs efforts, I am increasing the pupil grants from US$13.8 million to US$15.5 million. A total allocation of US$37.5 million is, therefore, being set aside for this purpose.

785. The above Government support will be complemented by resources from the Education Transition Fund being coordinated by UNICEF.

786. Furthermore, the supervision of schools is expected to be strengthened through procurement of additional monitoring and supervision vehicles, for which I have allocated US$1.4 million.

787. For primary and secondary schools, I am proposing to allocate US$23 million towards rehabilitation of 6 556 schools of which 480 are Government schools whilst 6 076 are local authority schools. To address the hygiene and sanitation challenges in schools, I am allocating US$2 million for the construction of ablution blocks and provision of safe water.

788. Some schools lack adequate infrastructure resulting in hot sitting which has compromised the quality of education. In this regard, I am allocating US$1 million for the construction and completion of additional facilities at six schools including construction of science and computer laboratories.

Higher and Tertiary Education

789. With regards to infrastructure for Government tertiary institutions, the thrust of the 2011 Budget will be on supporting the on-going rehabilitation works, expansion of facilities, upgrading of water and sanitation infrastructure and in that regard, I am allocating US$27.6 million.

Student Loan Scheme

790. Furthermore, most students still face challenges on tuition and subsistence costs, following the suspension the Student Support Grant and Loan Fund.

791. This has resulted in many potentially gifted students being unable to realise their potential as they fail to afford high tertiary education related expenses, while in some cases imposing strenuous conditions on students, thereby compromising quality of the graduates.

792. Government will, therefore, partner with participating financial institutions for the resuscitation of the Student Support Loan Fund.

793. Already, a sustainable and affordable Student Support Scheme for students at tertiary institutions, comprising a Grant and Loan component, is being established by Government in conjunction with the ZB Bank.

794. The grant component will be a fixed amount meant to assist all students meet part of the tuition fees, while the loan component will be flexible and be available on a need basis to cover fees and students upkeep costs for those students deemed disadvantaged.

795. Mr Speaker Sir, I therefore propose to allocate US$15 million towards the re-establishment of the Student Support Grant and Loan Fund.

Student Accommodation

796. Equally, the infrastructure at our institutions of higher learning is in need of major facelift and additional facilities in order to create a conducive teaching and learning environment.

797. Therefore, resources amounting to US$48.6 million are being availed focusing on rehabilitation and construction of infrastructure at State universities and other tertiary institutions in order to improve the welfare and wellbeing of the students as well as construction of additional facilities.

798. Students in most tertiary education institutions are facing acute shortage of accommodation. This situation has exposed a number of students to situations and practices that are not conducive for learning, whilst in some cases, the students were open to abuse particularly, female students.

799. Honourable Members will recall that through my Mid-Term Fiscal Policy Review Statement, I made a provision of US$5 million for planning, surveying and mapping to initiate a programme for the construction of Halls of residence for each University.

800. I am pleased to advise Honourable Members that this process has successfully been executed and Government is now ready to embark on phase II, which entails commencing the construction works.

801. In this regard, an amount of US$30 million is being provided for the construction of halls of residence for all the country's State Universities. This programme will also encompass teacher accommodation and appropriate water reticulation systems.

802. This momentum will, therefore, be consolidated by extending the targeted support to other colleges through strengthened partnership between Government and the development partners.

Furniture and Equipment

803. Information available indicates that at least 555 primary and 399 secondary schools have neither writing nor sitting places. As a result, this Budget is making a provision of US$1 million for procurement of desks and chairs as well as laboratory equipment.

804. Our tertiary institutions have also not been spared, a situation which is compromising the quality of learning. I am, therefore, allocating an amount of US$2 million for procurement of teaching and learning equipment.

Health

805. Quality health service delivery continues to be evasive on account of challenges facing the sector, including shortage of medical equipment, dilapidated infrastructure and inadequate transport in support of the referral system as well as institutional accommodation for health personnel.

806. Health infrastructure and medical equipment facilities have not kept pace with population expansion. This situation has resulted in provincial and central hospitals being used as first referral centres.

807. The targeted approach being implemented by Government saw major rehabilitation works being carried out at the country's referral

and some provincial hospitals and already the majority people are benefiting from increased access and improved healthcare.

808. In addition, the targeted approach also focused on replacement of obsolete medical equipment in public health institutions such as water reticulation, mortuary, boilers, X-ray, laboratory equipment, electrical repairs, elevators among others.

809. Buoyed by the success of this Programme and in view of current resource constraints, Government will continue with the targeted approach initiated in 2009.

810. Mr Speaker Sir, Budget interventions to improve health delivery during 2011 will prioritise increased drug availability, equipment, as well as continuation of the targeted support towards rehabilitation works at referral health institutions, provincial hospitals and other district health facilities.

811. Through the targeted approach, on account of limited resources vis-à-vis the challenges at hand, a handful of institutions have so far been revitalised.

Targeted District, Provincial and Central Hospitals

812. In 2011, the Programme will target completion of on-going rehabilitation and maintenance works at referral health institutions, while at the same time, extending the targeted support, prioritising

the remaining referral health institutions, provincial hospitals and other district health institutions.

813. Mr Speaker Sir, during 2011 the targeted institutions are twelve and comprise the following:

- District hospitals – Beitbridge, Binga, Chivhu, Mvuma, Rusape and Victoria Falls.
- Provincial hospitals – Bindura, Chinhoyi, Chiredzi, and Marondera.
- Central hospitals – Chitungwiza and United Bulawayo Hospital.

814. Priority will be on institutional accommodation, rehabilitation and construction of mortuaries, laundry facilities and expansion of district and rural health centre facilities. In that regard, I am providing US$12 million for the above.

Mission Hospitals

815. Related to the above is the need to provide resources in support of revitalisation of Mission hospitals where the majority of our rural communities access medical care.

816. To this effect, an amount of US$5.6 million is being provided under the targeted approach to cover the refurbishment of the following eight Mission hospitals with a view to improve quality of care at these institutions:

- Chikombedzi, US$0.7 million;

- Chitsungo, US$0.9 million;
- Munene, US$0.7 million;
- Mt St. Marys, US$0.6 million;
- St Joseph Mapisa, US$0.6 million;
- St Joseph TB, US$0.7 million;
- St Patricks, US$0.7 million; and
- St Ruperts, US$0.7 million.

Other Health Projects

817. With regards to on-going projects which require an amount of US$65 million, I am prioritising institutional accommodation, rehabilitation and construction of mortuaries, laundry facilities and expansion of district and rural health centre facilities.

818. Given the challenges being faced by health institutions with regard to intermittent supply of water and electricity, there is need to put measures in place that ensure constant supply in order to avoid loss of life.

819. Consequently, I am allocating US$20 million for infrastructure at the other health institutions.

Medical Equipment, Ambulances and Service Vehicles

820. Procurement of ambulances, service vehicles and medical equipment, especially for newly completed facilities, is also important to ensure that such investments begin to benefit the citizens and also strengthens the referral system.

821. I have, therefore, made an allocation of an amount of US$14.7 million in the 2011 Budget for procurement of ambulances, service vehicles and other medical and communication equipment.

Medicines and Medical Supplies

822. Availability of essential drugs and supplies at most health institutions remains very low, averaging 51% for vital drugs and 30% for all the other medicines on the essential drug list. Vital drugs availability should ideally be at 100% at all times.

823. About 90% of drugs for primary healthcare at clinic and district levels in 2009-2010 were financed by development partners.

824. With regards to improving medicines and medical supplies at public health institutions, Budget support in 2011 will target raising drug availability at Natpharm to **80%** for vital drugs and to **60%** for essential drugs.

825. To ease pressure and congestion at provincial and referral hospitals, distribution of drugs and supplies will also prioritise those institutions which service the majority of the poor. This will also benefit our rural health centres and clinics who draw most of their medical supplies and drugs distribution through Natpharm.

826. I, therefore, propose to allocate US$36.8 million for medical supplies and drugs for health institutions.

Infant Mortality

827. Mr Speaker Sir, it is also necessary that the Budget provides resources in support of the reversal of worsening child health indicators, with infant mortality and under five year mortality rising from 53 and 77 per 1 000 live births in 1994 to 67 and 94 per 1 000 live births respectively, in 2009. This is against the MDG target of 22 per 1 000.

828. The same trend is also depicted in malnutrition status of children, which increased from 29.4% in 1999 to 33.3% in 2010 among the under five year old children particularly those living in rural areas.

Maternal Mortality

829. Furthermore, maternal mortality rate has also increased substantially from 555 to 725 deaths per 100 000 between 2006 and 2009. This is against the MDG target of 145 per 100 000. Main causes of maternal mortality are related to HIV/AIDS, 26%; post-partum haemorrhage, 14%; hypertension, 13%; and puerperal sepsis, 8%.

830. Budget interventions target the maintenance of a high level of anti-natal care coverage of above 93%. Furthermore, reversal of decline in skilled birth attendance from 73% in 1999 to 69% in 2006 and further to 60% in 2009, will also be targeted, given that this is the simple most important intervention to prevent maternal mortality.

HIV, Tuberculosis & Malaria

831. Access to Anti-Retroviral Therapy (ART) remains low with a national coverage of 40% for adults and 57% for children against universal access. The prevalence rate also remains high at 13.7% for adults aged 15 to 49 against the MDG target of 9%.

832. Financial constraints continue to be the biggest obstacle in achieving universal access, while on the other hand, patient uptake of ART is also affected by availability of drugs and stigma.

833. With regard to malaria, the disease remains one of the top ten causes of infant morbidity and mortality, notwithstanding progress made in preventative care, and hence should be prioritised in our health care programmes.

834. An amount of US$2.2 million is, therefore, being allocated towards improved supply of drugs for HIV (US$0.8 million), TB treatment (US$0.2 million), whilst US$1.2 million is earmarked for malaria prevention and treatment.

Health Staff Resources

835. Mr Speaker Sir, appropriately trained, skilled and well motivated human resources are arguably the most critical component of an efficient health care system.

836. Honourable Members will be aware of the challenges that Government has been facing to reverse health personnel brain drain.

837. In order to improve on the vacancy rates in the health sector, Government in 2009 and 2010 instituted a number of mitigation measures to retain health workers.

838. These included allowing the re-entry of staff who had either resigned or retired, introduction of two year bonding of newly graduated doctors, nurses and pharmacists, introduction of innovative and generic health cadres as counsellors, X-ray operators and community health staff together with incentive programmes supported by development partners.

839. I am, Mr Speaker Sir, happy to note positive reports from the Ministry of Health and Child Welfare indicating the progress we have made with regard to the training of nurses. This has significantly improved the situation with close to full establishment of trained personnel at the entry levels.

840. The challenge remains capacitating specialised training of the general nurse to provide for tutors, theatre nurses, midwifery, among others. I will, therefore, be providing resources in support of improving on the health institutions' specialised training capacity as part of the 2011 Budget.

841. Therefore, an allocation of US$1.5 million is being set aside for pharmacy and dentistry cadetship.

Social Protection

842. Following a decade long socio-economic crisis in the country, the number of vulnerable groups has surged while Government funded social protection programmes have almost collapsed.

843. The creation of a **Fair Economy** requires strong investment in social safety nets and welfare, something that we have not adequately managed to do in the last few years.

844. High unemployment, coupled with depletion of insurance and pension schemes by hyperinflation, have increased the number of people requiring social assistance.

845. Current estimates put extreme poverty levels in the country at 48%. The number of orphans and vulnerable children are estimated at one million, while nearly 3% of the population is disabled. Other vulnerable groups include the elderly and the visually impaired, among others.

846. On the other hand, Government social protection coverage and actual expenditures have remained low, with administrative costs consuming the bulk of resources in most programmes.

Review

847. Absence of a comprehensive strategy and overall under funding remain the key challenges on social protection. Therefore, Government will carry out a comprehensive review of social protection system and formulate a more integrated and inclusive

Social Protection and Assistance Framework which guarantees basic minimal livelihood for the vulnerable groups.

Cash Transfer

848. Meanwhile the Conditional Cash Transfer interventions which have proven very effective in increasing demand for basic social services, particularly in health and education will be continued also in view of its effectiveness in reducing leakages. This will be augmented by improved targeted selection criteria.

Public Works

849. Similarly, Public Works which have also proven effective in creating employment while at the same time facilitating the rehabilitation and maintenance of community infrastructure will be resumed and I am proposing to allocate US$3 million to this programme.

BEAM & Assisted Medical Treatment Orders

850. In support of BEAM and Assisted Medical Treatment Orders Programme, I am allocating US$13 million and US$0.8 million respectively.

Child Supplementary Feeding Scheme

851. In addition, as already alluded to on the need to resuscitate the child supplementary feeding scheme particularly for rural primary schools, in order to avoid high school children dropouts and bring

back those who have dropped out, I am allocating US$1 million this scheme will be implemented in partnership with development partners.

852. Overally, given the lack of fiscal space, the above social protection programmes will count on support from donors. Hence, coordination of activities between Government and development partners will be critical to avoid duplication and to enhance effectiveness.

MINING AND DIAMOND RESOURCES

853. Honourable Speaker Sir, the mining sector in Zimbabwe has the capacity and potential for being both a **foundational and champion issue** for the reconstruction of this country. As we have shown above the mining sector contributed 4.9% of GDP in 2009 and 65% of the country's exports in 2010

854. As revenue from the mining sector increases it will be critical to guard against the entrapment of overdependence on resource income. Dutch disease is a phenomenon that is destroying many economies.

855. There are however, a number of structural issues that still need to be addressed before Zimbabwe can fully leverage its resources. First and foremost is the conducting of a comprehensive geological surveys in order to create a proper and competent data base.

856. Secondly, value addition is critical for the mining industry. The bulk of our minerals namely gold, nickel chrome lithium, copper, diamonds and platinum are being exported in raw form. Within the coming few years Government will ensure value addition through:

- Platinum refinery;
- Refining and processing gold;
- Lithium processing and manufacture of lithium batteries;
- Granite processing; and
- Diamond cutting, polishing and processing.

857. Thirdly, Mr Speaker Sir, amendments to the Mining and Minerals Act which the Government is currently working on are critical. These amendments will address the new regime of granting mining rights, State ownership and participation on strategic minerals, the principle of Use It or Lose It, environmental issues and the key question of obligatory social development on the part of mining houses.

858. Fourthly, Mr Speaker Sir, the issue of greater Extractive Industry Transparency is important. Zimbabwe will thus follow the guidelines of the Extractive Industry Transparencies Initiative.

859. Finally, Government has already considered the setting up of an Inter-generational Fund as recognition that mining resources are finite and, therefore, it is important to provide for the future generations.

Diamonds

860. As pointed out above, the Zimbabwe's diamond potential is huge. In the two diamond sales conducted in 2010 under the KPCS, the sum of only US$32 million has been transferred to Treasury.

861. From these figures it is quite clear that there is still a long way to go before this economy benefits from its diamonds.

862. It is urgent that work on the Diamond Act be concluded. This Act will inter-alia deal with the following:

- The question of exclusive State ownership for alluvial diamonds rights in Zimbabwe.
- The criteria of selection of any mining partner.
- The valuation criteria of the contribution of the mining of the mining partner selected.
- The creation of a Diamond Regulation Framework.
- The definition of policing and anti smuggling standards.
- The role of ZIMRA in collection and monitoring of diamond revenue.
- Environmental issues.
- Compensation to displaced mining communities.
- The creation of the diamond Generation Fund.

863. Mr Speaker Sir, diamonds can make a decisive difference in this country. It can be a positive one, one in which our GDP increases as a result of greater transparency and accountability of diamonds

resources to the State. Or it can be a negative. The history of alluvial diamonds on the continent has been a sad one. We cannot afford to be another Sierra Leone.

WOMEN AND GENDER

864. In the 2010 National Budget, amounts were allocated to the Women Development Fund administered by the Ministry of Women Affairs Gender and Community Development. This programme benefited over 2000 women across all the Provinces of Zimbabwe. The amounts were distributed through the POSB, given its wide reach across the country, to ensure that the amounts reached as many as possible.

865. The Women's Empowerment Fund financed many projects, including poultry, knitting, hair dressing, cross boarder trading, soap manufacturing, brick moulding, mushroom growing, catering to name a few projects.

866. The Provincial breakdown of the funds were as follows:

Projects Funded per Constituency, per Province

Province	Total Number of Constituencies Per province	Number of Constituencies Funded	Amount Allocated as at 6 November 2010 US$
Harare	29	29	234 000.00
Bulawayo	11	11	37 000.00
Mashonaland West	22	11	40 200.00
Mashonaland East	23	23	155 120.00
Mashonaland Central	17	11	37 200.00
Matebeleland North	13	13	66 000.00
Matebeleland South	12	7	18 300.00
Manicaland	26	15	96 780.00
Masvingo	26	20	58 700.00
Midlands	27	20	56 100.00
Total	**206**	**160**	**800 000. 00**

867. For 2011, I propose to allocate a sum of US$2 million, which once again will be distributed through the POSB.

868. Gender mainstreaming, promotion of equality and gender awareness programmes are the responsibility of the Ministry of Women affairs. Part of their work includes research into women issues, promotion of published works issues on inheritance, domestic violence, maternal rights and maternal health.

869. The above work is very important and, hence, I am proposing to allocate a sum of US$500 000.

PEOPLE LIVING WITH DISABILITIES

870. During our extensive consultations, people living with disabilities strongly expressed their frustration, exclusion and alienation in the economic affairs in the country. They expressed their regret with receiving no meaningful support from the Government or being treated as subjects of welfare under the Ministry of Labour and Social Welfare.

871. The policy measures pronounced in this document, including the resources we have provided for in all the sectors of the economy, ought to benefit all Zimbabweans including the people living with disabilities. In short, it is important and critical that people living with disabilities are part of the mainstream economy. We will, thus, monitor as a Ministry, the quantum of resources that will directly

benefit people living with disabilities in the various packages catered for by this Statement.

872. One of the packages where we have provided for the people living with disabilities is the Harmonised Cash Transfer where an amount of US$6.14 million has been provided for.

873. Another specific provision we are making is US$1.3 million for orthopaedic limbs, and small loans to people living with disabilities.

874. People living with disabilities face challenges in respect of ill suited public facilities. The Zimbabwean infrastructure is hostile to people living with disabilities. As a small starting point I propose to allocate the sum of US$500 000 towards provision of suitable toilet facilities to people living with disabilities in all Government offices.

EMPOWERMENT

875. Mr Speaker Sir, Honourable Members will be aware that indigenisation and empowerment regulations designed to achieve economic empowerment for indigenous citizens are now in place. These recognise the need for the indigenous to participate meaningfully in economic activity and the country's development.

876. In particular, they also seek to make it easy for the previously disadvantaged groups to overcome impediments to their full participation in our various business initiatives.

877. Significant progress has, therefore, been made with regards to sector specific thresholds on eligible companies and shareholding.

878. In order to facilitate the implementation of this framework and ensure that it embraces inclusivity, Government is proposing to set aside US$5 million for the purchase of shares targeted for the disadvantaged, vulnerable and marginalised groups of the society.

879. This, Mr Speaker Sir, is also in line with mainstreaming economic benefits and, in the process, address challenges undermining strategies to support the participation of previously disadvantaged groups in the sustainable development of the country.

880. It will, therefore, be critical that people see the benefits out of this investment vehicle by managing it in a transparent manner consistent with its objectives.

PEACE AND SECURITY

881. Mr Speaker Sir, STERP II recognises the Constitutional mandate of the defence and security forces to defend the country's sovereignty and territorial integrity as well as contributing to peace and stability.

882. Furthermore, our defence and security forces also have a secondary role of providing support to other Government Ministries, as well as civil support activities such as de-mining and assistance to communities during emergencies.

883. Resource constraints have also stalled and in some cases led to suspension of various critical defence and security programmes, particularly in construction and maintenance of institutional facilities, including accommodation, acquisition and maintenance of equipment, training facilities and rations for uniformed personnel.

884. It is, therefore, critical that as our macro-economic environment stabilises, the Budget responds to the defence and security forces requirements for the necessary equipment and facilities to ensure effective execution of their mandates, as well as other logistical requirements, institutional accommodation and other facilities within the cantonment areas.

885. I, therefore, propose to allocate US$2.1 million to allow the defence and security forces to also carry out various training programmes, which are at the core of the country's defence and security.

886. Given the need to re-equip, refurbish and upgrade facilities and hardware, I also provide US$37.9 million towards replacement of obsolete equipment and facilities, completion of on-going construction works, facilities maintenance, research and development.

XIII. REGULATORY & MANAGEMENT OF PUBLIC RESOURCES

ACCOUNTABILITY OVER USE OF PUBLIC RESOURCES

887. Mr Speaker Sir, I have attributed a major component of our failure to provide for most of the requested funding by Ministries and

Departments to the limited fiscal space in light of the challenges still around our country and absence of external support.

888. Hence, the need for fiscal prudence, efficiency and accountability over use of public resources cannot be over emphasised. This will have to embrace the entirety of the public sector, including our parastatals, local authorities and any other institutions that draw or whose operations have potential to raise future claims on public resources.

Parastatals and Local Authorities

889. Cabinet has already directed local authorities and public enterprises to adhere to the 70:30 expenditure ratio with regards to operations/capital expenditures and employment costs.

890. The Budget will require all local authorities' and public enterprises' budget approvals by the responsible Ministries to be in line with this.

891. The Budget will complement this by ring fencing line Ministries' and Departments' service payments to local authorities and public enterprises towards the fulfilment of the 70:30 ratio.

892. Furthermore, the same criteria will be invoked with regards to settlement of arrears and debts to local authorities and public enterprises.

Public Finance Management Regulatory Framework

893. Mr Speaker Sir, to enhance the effective management of and accountability for public resources, it is critical that the financial reporting requirements enshrined in the relevant Statutes are complied with.

894. It was for this reason that Parliament promulgated a strengthened Public Finance Management (PFM) Act [Chapter 22:19], providing for enhanced corporate governance arrangements and rigorous reporting requirements that facilitate effective oversight over public resources management.

895. Pursuant to this, Treasury is developing the regulations necessary to operationalise the provisions of the Act and the appropriate manuals to guide day to day public resource management activities. These will be availed to line Ministries and Government Departments in due course.

Public Finance Management System

896. It is, therefore, necessary that we overcome challenges that continue to undermine the smooth operations of the Public Finance Management System (PFMS), the computer based accounting and financial management system through which Government transacts and manages its resources.

897. The system, first implemented in 1999, had its operations adversely affected by factors that include unsustainably high inflation levels,

equipment breakdowns and obsolescence, mandatory software upgrades in an environment of funding constraints compounded by loss of critical skills.

898. The system was migrated to higher capacity servers, upgraded to a new software version, reconfigured to handle the multi-currency environment and became available for use in June 2009. However, system utilisation was low due to intermittent technical challenges with its budget availability control functionality, inadequate user training, shortage of up to date computers and connectivity limitations.

899. To address the various challenges highlighted above, Treasury enlisted the assistance of cooperating partners to bring on board SAP system experts to review and provide quality assurance on the system configuration work done, assist with teething problems encountered in the system operations, configuration of reports and development of a training strategy and training materials together with other system capacity building requirements.

900. With respect to the post upgrade equipment challenges, Government engaged cooperating partners to assist with and embarked on a computer, network and related equipment procurement programme to facilitate online transacting by all offices to which the system has already been rolled out.

901. To ensure Government derives maximum benefit from the investment, training on the upgraded system's new functionalities

together with the general training necessary to rebuild the skills base decimated by the brain drain during the period of sustained economic challenges is ongoing.

PFMS Data Capture Backlog

902. Mr Speaker Sir, the PFM Act requires the Treasury to prepare and avail consolidated financial reports on the Consolidated Revenue Fund on a monthly, quarterly and annual basis. The consolidated reports are compiled from inputs submitted by the various ministries on their operations.

903. The non-availability of the system during the upgrade and reconfiguration process, coupled with teething problems with the system's budget availability control functionality resulted in the bulk of the 2009 and 2010 transactions being processed outside the PFMS, a situation that has created difficulties in complying with the PFM Act reporting requirements.

904. Most of the historical data has since been uploaded onto the system and work to reconcile and validate the transactions is underway, while Ministries are now required to process current transactions through the PFMS as most of the system challenges have since been addressed.

905. New computers are being installed, while contracts for the procurement of network equipment have been executed. The system is expected to be fully operational in the 2011 fiscal year, and will

facilitate prompt and accurate reporting in line with the requirements of the Act.

Public Finance Management Reform Initiatives

906. Mr Speaker Sir, while an appropriate legal and regulatory framework should be in place to provide the necessary anchor, it is not adequate to secure the effective management of public resources.

907. The essential institutions and systems need to be in place to support implementation of national development policies and priorities.

908. To this end, Government with assistance from development partners will be conducting a Country Integrated Fiduciary Assessment (CIFA), a comprehensive review of the key building blocks of the PFM system covering budget preparation and execution, procurement management systems, internal controls, accounting and reporting, audit and oversight with a view to identifying risks and weaknesses that need to be addressed.

909. The assessment is intended to identify risk areas and recommend interventions necessary to make the system capable of:

- efficient resource allocation and budget execution in line with agreed Government priorities;
- effective budget control, enforce and achieve fiscal discipline; and

- managing the use of budgeted resources to achieve efficient and effective service delivery and value for money.

910. Such a review will provide a basis for informed decision making on further PFM reforms and support for institutional and human capacity development initiatives. The reformed system will further serve to encourage development partners to provide direct budgetary support for Government programmes in the knowledge that the resources will be applied for the intended purposes with economy, efficiency and effectiveness.

Results Based Budgeting

911. The Budget plays a critical role in determining the resources and their expenditure patterns while having a major impact on the direction, scope and performance of Government programmes and activities.

912. Resource shortages compounded by greater focus on public sector accountability, as well as the need for improved performance arising out of public expenditures have made us more conscious about resource usage and performance with a view to ensure there is value for money in all public expenditures through managing for results and linking resource usage with programme performance.

913. Pursuant to the above, Government adopted the Results Based Budgeting principles in 2006 whose major tenet is the introduction of the concept of Performance Agreements. All Ministry activities are

now subject to monitoring and evaluation through this instrument with accountability over required outputs resting with the Accounting Officer.

914. To ensure that Heads of Ministries direct all their efforts towards programme performance and results, Performance Contracts were introduced this year as an integral part of the strategic management system aimed at facilitating effective planning and budgeting, efficient controls and accountability.

915. Whilst the Performance Agreement remains the basis for Budget implementation, the Performance Contracts will be used to evaluate Ministries' performance and will be entered into between the Chief Secretary and the Accounting Officer at the beginning of each financial year.

916. The 2011 Budget will build on the gains achieved to date by emphasising on the outputs and outcomes that have a direct impact on the welfare of citizens.

917. To this effect, and in line with Section 28 (1) (b) of the Public Finance Management Act (Chapter 22:19), the 2011 Budget Estimates Book has been reconfigured to reflect for each Vote, the outputs to be achieved during the year from the resources allocated.

918. This will make it easier for the public, including Parliament through the Portfolio Committees, to call upon the Ministers and Accounting Officers to account for usage of public resources under their control

and the results so achieved. This way, transparency and accountability over the use of public resources will be enhanced.

Public Procurement

919. Mr Speaker Sir, the public procurement system is the principal means of organising spending of public resources for delivery of goods and services.

920. In this respect, a transparent and efficient public procurement system is critical for the achievement of Government priorities and the objectives of strengthening governance and accountability in the management of public resources while improving service delivery by public institutions.

921. To that end, proposals from Ministries and Departments that the public procurement system be transformed to make it more timeous, effective, efficient and transparent are overwhelming.

922. Hence, Mr Speaker Sir, a diagnostic review of the current system within the context of the CIFA framework will be necessary.

923. This will provide opportunity for:

- a comprehensive review of the legal and regulatory framework;
- strengthening of the institutional arrangements; and

- consideration of measures to address organisational and human resource capacity issues.

Enhancing Audits

924. Mr Speaker Sir, the Constitution recognises the pivotal role of the Office of the Comptroller and Auditor General in promoting transparency and accountability over use of public resources, with the recently enacted Audit Office Act providing for additional functions under which the definition of 'public entities' now includes designated corporate bodies, Government controlled companies, partnerships and local authorities.

925. The Act also reduces the period in which the Comptroller and Auditor General must table the annual audit report from nine months to six months after the financial year end. It also strengthens the independence of the Comptroller and Auditor General and sets up the Office of the Comptroller and Auditor General as an autonomous body with an Audit Office Commission which operates through the Department of Administration.

926. Historically, the Audit Office has not been able to retain qualified auditors due to low remuneration and unconducive working environment.

927. To address this, the 2011 Budget proposes to:

- adequately resource the Office to take on the additional function of auditing of local authorities and parastatals, as well as undertake value for money audits.
- to decentralise from Burroughs House in Harare to the major provincial centres, starting with Bulawayo and Mutare.
- provide sufficient vehicles to facilitate mobility throughout the country. Because of inadequate transport, the Office has been relying on audit evidence mainly from head offices of Ministries and short visits to some of the Government offices outside Harare.
- upgrade information technology systems, and provision of other basic auditing tools.
- support the Audit Office with resources for intensified training in articles of clerkship, IT audit, value for money audit and in other relevant professional development programmes.

928. Furthermore, most of our foreign Missions have not been fully audited for more than ten years. Hence, the capacitation of the Audit Office will also facilitate the auditing of all such Missions during 2011.

FEES AND REVENUE RETENTIONS

Fees for Public Services

929. Mr Speaker Sir, most fees, tariffs and other charges for public services remain distorted following the transition from the Zimbabwe dollar to the use of multiple currencies.

930. These range from power, water, education and health services, passport fees, and other fees and charges levied by various line Ministries and Departments, etc.

931. The retention policy has also acted as an incentive for maintaining exorbitant tariffs, fees and charges.

932. As a result, some services are exorbitantly priced, whilst others are under priced. A comprehensive review of these charges will be carried out in 2011, guided by the principle of cost recovery, affordability, and regional best practices.

933. Central Government is also largely not clear on utilisation of such resources.

Retentions

934. The charging of fees for public services provides for additional resources over and above the allocations appropriated through the Budget.

935. This way, most Ministries and Departments are benefiting from Revenue Retention arrangements being provided under Section 18 of the Public Finance Management Act.

936. The Act allows for the creation of Funds to manage revenues earmarked for specific activities as defined in Funds Constitutions.

Funds

937. There are currently 75 such Public Funds which are active, of which 66 retain 100% of revenues collected, whilst 9 retain an agreed retention level ranging from 5% to 40%.

938. Notable collection by some of these Public Funds are indicated below:

Public Fund	**Retained Amount** Jan- Sep 2010 (US$ mil)	**% Retained**
Registrar General	33.7	100%
Court and Administration Fund	5.1	40%
Deeds Company's Office Fund	11	30%
Number plate Revolving Fund	5.0	100%

939. There are also other Statutory Funds raising fees and commissions, some of which also draw directly from the fiscus.

940. These include the following:

Statutory Funds	**Collected Revenues** Jan - Sep 2010 (US$)
EMA	4 597 754.00
NAC	16 384 359.63
ZINARA	55 417 436.31
POTRAZ	19 647 000.00
MMCZ	10 000 000.00
ZMDC	26 342 766.00
Total	132 389 315.94

Accounting Standards

941. Proper accounting for these retained resources remains a challenge as most of these Departments are not submitting their financial statements. Out of 75 active Funds, only 17 have so far submitted their 2009 financial statements for audit, with the rest having been last audited between 2003 and 2007.

942. An analysis of the expenditure patterns of these Funds indicate gross abuse as reflected by the majority of expenditures being *ultra-vires* the Constitutions establishing them.

943. Honourable Members will recall that in my 2010 Mid-Term Fiscal Policy Review, I introduced the policy measure for the full accounting of collected revenue through the Consolidated Revenue Fund (CRF) with Funds being reimbursed by Treasury.

944. Of the 9 Public Funds operating under this policy framework, a marked improvement in the accounting of the Funds has been recorded. This was made possible as Treasury could only release funds upon satisfactory acquittal of previously disbursed resources.

945. Mr Speaker Sir, in order to improve accountability of public resources and ensure that Public Funds play a complementary role to the National Budget, all Public Funds are required to prepare and submit their 2009 financial statements for audit by 28 February 2011. Failure to comply will result in the cancellation of their retention arrangements.

946. Public Funds are also required to fully comply with the reporting requirements of the Public Finance Management Act.

Review

947. During Budget consultations, the public expressed dismay and outcry at the lack of transparency over the administration of public resources collected and managed outside the fiscus by some Departments and Statutory Bodies.

948. Topical were revenues collected, retained and managed through ZINARA, POTRAZ, EMA, the Aids Council and lately, ZMDC, the Registrar General's Department and ZIMSEC.

949. The public is concerned that utilisation of such magnitude of resources should be left to the discretion of a few citizens, namely top management, the respective Boards and the 'responsible' Minister without the involvement of the public through Parliament.

950. Given the high level of abuse of retained resources, I am proposing to review the retention thresholds guided by the Constitution and objectives of the Funds, which may also result in the dissolution of some of the Public Funds.

951. Accordingly, with effect from 1 April 2011, all the resources currently being retained through various Funds will be brought under the ambit of Treasury through the Consolidated Revenue Fund. The budgets of the institutions and their programmes will be

appropriated annually to the full extent of the Annual Revenue Estimate.

952. In light of the above deep concerns, the Budget remains the most appropriate and transparent tool through which these public resources can be administered and accounted.

Appropriation of Idle Cash Resources

953. The Public Finance Management Act mandates the Treasury to, among other matters, exercise a general direction and control over public resources.

954. Treasury has observed a trend whereby some public entities and Statutory Funds generate income in excess of their immediate requirements or implementation capacity, and accumulate significant idle cash balances.

955. In this respect, I propose to amend the Finance Act to empower the Treasury to, in consultation with the responsible Minister, appropriate any such idle cash resources to the Consolidated Revenue Fund, notwithstanding the provision of legislation or other foundational documents in terms of which a Public Entity or Statutory Fund is set up.

956. Resources so appropriated will be applied to fund Government priority programmes approved by this august House through the Budgetary process.

EMPLOYMENT COSTS

Managing the Wage Bill

957. In 2009, the Public Service wage bill stood at 47% of the total Budget and 9.2% of GDP. By end of 2010, this is expected to be 54.5% of the total Budget and 15% of GDP, implying an 8% increase as a percentage of the total Budget.

958. Government has already indicated that the above wage levels are unsustainable and will, therefore, be managed balancing the need to adequately remunerate public servants, and maintain the wage bill within levels which do not compromise financing of such other essential programmes as infrastructure, health and education.

959. Therefore, the wage bill, as a percentage of the total Budget and GDP, will be gradually reduced, initially to 45% and 14.5% in 2011, respectively. This reduction will be made possible by implementing recommendations from the Civil Service Audit and taking advantage of the better performance of GDP and revenues.

960. The medium term target is to reduce the wage bill to the desired levels of 30% of the total Budget and 10% of GDP.

Remuneration of Public Servants

961. Mr. Speaker Sir, the above ratios confirm that relative to the national wealth the public service wage bill is not sustainable. However, relative to the cost of living, civil servants are not being paid well.

Hence, the need for improved productivity and growing the national cake.

962. Allow me, therefore, to commend the civil servants for their resilience during 2010 despite receiving low salaries which could not sustain their basic needs. The plight of the Civil Servant has been exacerbated by high tariff levels of electricity, water, rentals and rates.

963. I propose to set aside US$1.1 billion to meet attendant costs related to a modest remuneration package for 2011 for the Public Services.

964. In the light of the public service pay framework that has prevailed in 2010, it appears essential that for 2011 the bulk of the nominal Budget revenue increase of US$600 million goes towards the wage bill.

965. The allocation for overall Employment Costs is US$1.4 billion comprising the wage bill, pension, medical aid and social security contributions. This represents an increase of US$400 million over the 2010 outturn of US$1 billion.

Pension

966. The current Defined Benefit Pension Scheme indexes pension payments to salaries of serving members under the 'Pay as You Go' arrangement whereby pensioners get paid from contributions being made by serving members.

967. This, Mr Speaker Sir, cannot be sustained, given that the current 7.5% pension contribution payments of serving members amount to US$237 million per month, far short of the monthly pension bill which has averaged US$16 million this year.

968. In addition, the number of pensioners continues to increase as more civil servants reach retirement age.

969. To address this challenge, I propose that we expedite implementation of the Cabinet decision of 1999 to convert the current scheme to a defined contribution.

Medical Aid

970. Government's decision to meet 100% medical requirements for all civil servants has seen an increase in new members joining the Premier Medical Aid Society (PSMAS) scheme, resulting in an unsustainable surge in the monthly medical insurance bill.

971. To reduce pressure on the fiscus as well as ensure viability of PSMAS and affordability by members, it is critical that we revert to the previous 60:40 employer/employee contribution framework, limiting the number of beneficiaries to three.

972. However, in light of the remuneration challenges facing civil servants, I propose to allocate an amount of US$35 million towards the

Government employer contribution to PSMAS based on a contribution ratio of 80:20.

De-Linking the Judiciary and the Legislature from the Public Service

973. Conditions of Service for the Judiciary and Legislature, encompassing the review of remuneration levels, have traditionally been guided by the outcome of Conditions of Service negotiations for the Civil Service.

974. This practice is not in keeping with the basic tenet that recognises the Legislature and the Judiciary as separate arms of Government.

975. Consistent with the provisions of Judicial Service Act [Chapter 7:18] and Standing Rules and Orders of Parliament, the review of Conditions of Service for the Legislature and the Judiciary shall henceforth be de-linked from that of the Executive and be the responsibility of these arms of Government.

976. Appropriations to support implementation of reviews to Conditions of Service shall remain the responsibility of Treasury, as provided for in the Public Finance Management Act [Chapter 22:19].

PROCUREMENT OF VEHICLES, FURNITURE AND EQUIPMENT

Vehicles

977. Mr Speaker Sir, I have received a bid of **US$308.6 million** with regard to procurement of vehicles from Ministries. I have already raised concern with the level expenditure on motor vehicles in 2010.

978. I, therefore, propose to scale this down to US$17.5 million in line with the resource envelope.

979. Furthermore, the management of these resources and procurement of motor vehicles is the responsibility of the Ministry of Transport, Communications and Infrastructural Development as well as the CMED.

980. I, therefore, appeal to Ministries and Departments that there should be no recourse to Treasury after the exhaustion of this resource envelope in respect of vehicle purchases.

981. The worrying thing about motor vehicles is the number of accident damaged new vehicles at a time when Government cannot adequately provide for education, health and infrastructure, let alone conditions of service.

Furniture and Equipment

982. Mr Speaker Sir, I have also received a bid of some **US$315.9 million** in respect of procurement of furniture and equipment from Ministries and Departments.

983. Again, given the limited fiscal space, I have only been able to provide US$26.9 million for this purpose and I hope that Ministries and Departments will bear with us as we grapple with the challenges in the other areas.

XIV. REVENUE PROPOSALS

984. Mr Speaker Sir, tax proposals for the 2011 Budget are anchored on implementing measures aimed at:

- supporting the productive sectors;
- availing relief to individual taxpayers;
- strengthening the tax administration; and
- improving transparency and accountability in business.

985. The presentation of the Budget also offers opportunity for review of some of the revenue policy measures announced in previous Budgets.

VAT Fiscalised Recording of Taxable Transactions

986. Mr Speaker Sir, I proposed during the presentation of the 2010 National Budget to introduce electronic fiscal devices, with "full-proof" fiscal memory features that minimise tax fraud by retailers, in order to safeguard the fiscus from potential revenue prejudice.

Implementation Date

987. The VAT fiscalised recording of taxable transactions was initially due to commence on 1 April 2010. This date was shifted to 1 October 2010 following requests for more preparation time by registered operators.

988. Further requests for extension saw the 1 October 2010 implementation date deferred to 1 January 2011.

989. Mr Speaker Sir, I now call on all registered operators to take the opportunity availed by this further extension to procure and install the fiscalised devices to ensure compliance by the new stipulated date.

Suppliers of Fiscalised Devices

990. Mr Speaker Sir, given the extensions to the implementation date to 1 January 2011, I propose to invite the participation of additional players in the supply of fiscalised devices.

991. Pursuant to this, Government will re-tender for the supply of fiscalised devices. Specifications of the appropriate fiscal devices have already been provided through Statutory Instrument 104 of 2010 which is obtainable from Printflow.

992. Potential suppliers of fiscal devices will be advised through the public media when to submit their applications to the Ministry of Finance.

993. Mr Speaker Sir, Government cannot, however, accede to proposals that registered operators be allowed to source fiscalised devices outside of the above Gazetted Framework.

994. Concerns over possible monopolistic pricing of fiscalised devices by approved suppliers will be taken care of as part of the licencing process.

Zero Rating of Fiscalised Devices

995. In order to further minimise costs, I propose that the procurement of Fiscalised Electronic Tax Registers and Memory Devices be zero rated for VAT purposes.

996. This measure takes effect from 1 December 2010.

Public Awareness Campaign

997. Stakeholders have registered concern over the limited public awareness towards the implementation of the fiscalisation programme.

998. The Zimbabwe Revenue Authority will, therefore, roll out a publicity programme to ensure that registered operators implement the fiscalisation programme by 1 January 2011.

Large Taxpayer Office

999. Mr Speaker Sir, in line with international best practices, where a number of tax administrations worldwide have established fully-fledged Large Taxpayer Offices, the Zimbabwe Revenue Authority has set up an LTO that became operational on 1 April 2010.

1000. Taxpayer segmentation is envisaged to yield significant benefits in terms of revenue generation, through reduction of compliance and tax collection costs.

1001. Furthermore, segmented service delivery enables the tax authority to better understand each category of taxpayers, hence, strengthens the monitoring mechanism.

Automation of the Zimbabwe Revenue Authority

Electronic Filing

1002. The Zimbabwe Revenue Authority has embarked on the process of electronic filing of returns. Progress in the implementation of electronic filing has been noted, especially in e-payment. Other modules of electronic filing will be rolled out during the course of 2011.

1003. Unlike the manual system of filing returns, which can take days or even weeks to be registered at the ZIMRA offices, the primary benefit of electronic filing is the speed at which the process is completed. Electronic filing, thus, saves time and associated costs incurred by both taxpayers and the Revenue Authority, as well as enhancing management of taxpayer information.

Proposed New Income Tax Act

1004. Mr Speaker Sir, I announced during the 2010 Mid-Term Fiscal Policy Review that the Draft Income Tax legislation had been produced and circulated to stakeholders for input, with a view to analyse and incorporate their views in the draft legislation by the end of October 2010.

1005. In order to ensure maximum participation by stakeholders in the redrafting exercise, the Steering Committee on tax reform undertook Provincial Consultative Workshops. Valuable contributions were received through the workshops held in Harare, Bulawayo, Mutare, Gweru, Masvingo and Victoria Falls.

1006. Considerable progress towards the redrafting of the New Income Tax legislation has been registered. The draft Income Tax Bill will be presented before Parliament during the second half of 2011.

Taxation of the Mining Sector

1007. Mr Speaker Sir, mineral taxation is one of the pertinent and challenging issues that are under international debate. Unlike other economic activities, mines extract non-renewable resources, hence, Government expects compensation for permanent loss of resources. A fiscal regime that attracts investors, while providing the Government with a fair share of economic rent generated from mineral extraction is desirable.

1008. There is, therefore, need for Government to design an appropriate mineral taxation model that benefits the economy and also addresses social issues that arise from extraction of mineral resources.

Royalties

1009. International prices of precious metals have been firming up, with gold prices increasing by an average of 45% during the period 2009 and October 2010. Platinum prices also increased by an average of 54% during the same period. Despite the increase in international metal prices, royalties collected from precious metals amounted to a paltry US$20.7 million from sales of US$593.8 million, during the period January to September 2010.

1010. Whilst it is appreciated that the mining sector, and in particular gold producers, have to recapitalise, there is also need to contribute meaningfully to the fiscus. I, therefore, propose to increase the royalty on gold and platinum from 4% to 4.5% and 5%, respectively.

1011. This measure will take effect from 1 January 2011.

Capital Allowances

1012. Mr Speaker Sir, during the 2010 Mid-Term Fiscal Policy Review, I announced the intention to proportionately spread Special Initial Allowance (SIA) of the cost of capital expenditure in the 2011 Budget. Tax deferral arising from the treatment of capital allowances which are claimed wholly in the year in which expenditure is incurred results in perpetual carry forward of losses.

1013. Although the review of capital allowances has potential to significantly improve revenue inflows to the fiscus, there is, however, need to allow the mining sector to recapitalise in order to enhance productive capacity.

1014. The review of capital allowances will, thus, be deferred, whilst performance of the mining sector is being monitored, with a view to introduce proportionate spread of capital allowances at an opportune time.

Pay As You Earn

Tax-Free Threshold and Bands

1015. Representations for adjustment of the tax-free threshold to match the Poverty Datum Line and also lower the marginal tax rate were received from stakeholders.

1016. The tax free-threshold was gradually adjusted from US$150 with effect from 1 January 2010, to the current US$175 per month. The highest marginal tax rate was also reviewed downwards from 37.5% to 35% with effect from 1 January 2010. These measures have positively impacted on the purchasing power of taxpayers.

1017. In order to enhance disposable incomes in the hands of taxpayers' thereby stimulating aggregate demand for goods and services, I propose to raise the tax-free threshold from US$175 to US$225 per month, with effect from 1 January 2011.

Bonus Tax Exempt Threshold

1018. Annual bonus is a source of additional income which some taxpayers use to purchase consumer durables and also prepare for the festive season.

1019. I, therefore, propose that the bonus exempt tax threshold be increased from US$400 to US$500, with effect from 1 November 2010.

Excise Duty

Excise Duty on Spirits

1020. Mr Speaker Sir, in order to level the playing field between locally produced and imported spirits, excise duty structure based on a specific excise duty was introduced during the 2010 Mid-Term Fiscal Policy Review. Excise duty on locally produced and imported spirits has, thus, been levelled, thereby removing the advantage that imported products enjoyed over locally produced products.

1021. Manufacturers of low-end market products, however, rely on small margins and high turnover, in order to compete with highly intoxicating, lowly-priced smuggled products. The low retail price of illicit products, which evade excise duty payment, has however made production of low-end market products unviable.

1022. In order to resuscitate manufacturers of low-end market products, who have been severely affected by competition from smuggled products, the Zimbabwe Revenue Authority, in collaboration with the Zimbabwe Republic Police, will intensify anti-smuggling measures such as physical examination, border patrols and post clearance audits.

Excise Duty on Cigarettes

1023. Locally manufactured cigarettes attract excise duty of 80 percent on ex-factory price, whereas imported cigarettes are liable to import duty at a rate of 40 percent plus excise duty of US$5 per 1,000 sticks. The specific import duty is imposed to counter undervaluation, which is a major concern internationally.

1024. Specific and ad valorem taxes have different effects on prices, tax revenues and administration. Specific types of taxes are simple to administer since it is easier to determine the physical quantity than the value of the product.

1025. Ad valorem taxes which are based on the value of a product can be difficult to administer especially where the market prices of the goods are not readily established or are undervalued. This can result in a substantial loss of tax revenue to the fiscus.

1026. In order to mitigate against revenue loss and also simplify administration, I propose to levy specific excise duty of US$7 per 1,000 sticks on locally produced cigarettes, with effect from 1 January, 2011.

Excise Duty on Non-Energy Saving Bulbs

1027. In order to conserve electricity through the use of alternative energy sources, Government removed customs duty on solar based gadgets and energy saving bulbs with effect from August 2010. Despite efforts to encourage use of energy saving bulbs, consumers continue to use high energy consuming bulbs regardless of low power generation, thus, compounding the problem of load shedding.

1028. The disadvantage with traditional (incandescent) light bulbs is that they use only 10% of their energy to produce light, burning off the rest as heat. In order to encourage use of energy saving bulbs, I propose to introduce excise duty of US$0.15 to US$0.25 on non-energy saving bulbs above 40 watts, with effect from 1 January 2011.

Customs Duty

Customs Duty on Finished Goods

1029. Government has made significant progress towards lowering customs duty rates. However, the current duty rates on finished goods remains relatively high compared to other countries in the region. The current customs duty structure on finished goods ranges from 15% to 60%.

1030. The relatively high duty on finished goods encourages smuggling, hence, the informal sector continues to flourish whilst marginally contributing to the fiscus. The economy, however, derives substantive benefits where business is formalised. It is, thus, necessary to review downwards customs duty rates, especially on finished goods that the local industry has no capacity to produce.

1031. In order to incentivise the formalisation of businesses, thereby enhancing revenue collection, as well as improve consumer welfare through access to affordable goods with sufficient warrantee, I propose to review customs duty on selected finished goods as follows:

Category of Goods	Current Customs Duty Rate (%)	Proposed Duty Rate (%)
Motor Vehicles exceeding 1,500cc	40-60	40
Selected Household Goods	40	30
Selected Medical Apparatus	40	10
Selected Landscaping Equipment	40	25

1032. The reduced duties with take effect from 1 January 2011.

1033. There will, therefore, be no need for informal traders to risk their lives by smuggling goods through undesignated points such as crocodile infested rivers and landmine fields.

Post Clearance Audit

1034. Lack of enforcement of the legislated tariffs at the border posts has dampened prospects for the recovery of industry as most goods are smuggled, hence, retail at prices below the cost of production, thereby prejudicing revenue to the fiscus. The challenges in customs administration system has compromised enforcement of duties resulting in wide price differentials between imported and locally produced products. The stiff and unfair competition threatens viability of the local industry.

1035. As already alluded in the 2010 Budget, limited physical examination due to congestion at ports of entry necessitates a system of Post Clearance Audit (PCA) in order to avail modest protection to the local industry and also enhance revenue inflows to the fiscus.

1036. The Zimbabwe Revenue Authority, thus, has to establish a fully fledged risk-based Post Clearance Audit Unit during the first half of 2011.

Reduction of Customs Duty on Inputs Used by the Local Industry

1037. The unfavourable macro-economic environment during the past decade has resulted in closure of some companies that used to produce inputs. The gradual reduction of duty on inputs has, however, assisted the local industry to reduce the cost of production, thereby maintaining price stability.

1038. Further representations for the reduction of duty on inputs have been submitted by the manufacturing and agricultural sectors. I, therefore, propose to reduce duty on inputs, with effect from 1 January 2011, as follows:

Category of Goods	Current Customs Duty Rate (%)	Proposed Duty Rate (%)
Generators	5	0
Beverage Sector Inputs (malt & hops)	10	5
Packaging material	15	10
Poultry feeds	10	5

Review of Suspension of Duty on Basic Commodities

1039. During the Mid-Term Fiscal Policy Review, Government extended suspension of duty on basic food items in order to address food shortages and stabilise prices, whilst also allowing industry ample time to increase capacity utilisation.

1040. Government also re-introduced modest rates of duty on selected non-food basic commodities, in view of increased capacity utilisation by the local industry. The prices of these commodities have remained fairly stable due to adequate supply.

1041. In view of the need to ensure continuous availability of basic food items, thereby cushioning consumers against the high cost of living, I propose that the suspension of duty which is due to expire on 31 December 2010 be extended to 30 June 2011, on rice, maize meal, flour, cooking oil and salt.

1042. The suspension will, however, not be extended to laundry soap, in light of improved supplies by the local industry.

Warehousing of Imported Motor Vehicles at an Appointed Private Depot

1043. Under the current legislation, the Commissioner may appoint any premises within the country to be a State Warehouse into which goods may be taken and lodged until duty obligations have been settled. Warehouse rent is, however, levied on such goods at prescribed rates for the period that the goods remain in the State Warehouse.

1044. In an endeavour to decongest Beitbridge Border Post, a private bonded warehouse was appointed to warehouse imported motor vehicles pending clearance. Stakeholders have, however, raised concern with regards to the lengthy clearing process whereby importers shuttle between the private warehouse and ZIMRA offices.

1045. Whilst efforts to decongest the border post are commendable, however, it should be done at a minimal cost to the importer in terms of storage costs and the time spent to clear the goods.

1046. The Zimbabwe Revenue Authority will, thus, during the first quarter of 2011, centralise the clearance of motor vehicles at the appointed transit shed. Importers with readily available funds to pay the assessed duty will, therefore, be able to clear their vehicles within a reasonable time period and also at minimal costs.

Fuel Importation Transport Mode

1047. During the 2010 Mid-Term Fiscal Policy Review Statement, I advised that significant volumes of fuel are transported by road from Beira, thereby rendering unviable the pipeline which requires a minimum throughput of 67 million litres in order to sustain the US$2.2 million monthly pipeline fee under the take-or-pay arrangement.

1048. Importation of fuel through the pipeline facilitates verification of the quality of fuel, reduces incidences of customs duty evasion, encourages use of the infrastructure that Government is obliged to maintain and also reduces road carnage which is exacerbated by use of fuel tankers.

1049. In support of improved use of the pipeline by oil companies, I announced that Government will institute the necessary financial disincentives for road importation and also at the same time introduce measures to overcome challenges associated with handling of fuel at depots.

1050. Government has, through the Ministry of Energy and Power Development, put in place an administrative mechanism whereby NOCZIM and the oil companies will ensure efficient management of the pipeline. I, therefore, propose to levy a fee of US$0.04 per litre of diesel or petrol transported by road from Beira to Msasa.

1051. The Bulawayo-Beitbridge railway was built on the concept of Build, Operate and Transfer (BOT). Where there is no optimal utilisation of the railway line, Government is obliged to pay for excess capacity.

1052. I also propose to levy a fee of US$0.04 per litre of diesel or petrol transported by road from Beitbridge to Bulawayo.

1053. These measures will take effect from 1 January 2011.

Customs Duty on Textiles, Clothing and Footwear

1054. Customs duty on textiles and clothing was recently reduced from 40% plus US$10 per Kg to 40% plus US$2.50 per kg whereas duty on footwear was also reviewed downwards from US$5 per pair to US$2.50 per pair. This measure was intended to discourage rent seeking behaviour and abuse of the travellers' rebate by informal traders.

1055. Conflicting representations were received from the clothing and textile industry which advocated for modest protection through higher level of duties, whilst informal traders openly admitted that high customs duties are an incentive to smuggling, hence, proposed a downward review in order to enhance compliance.

1056. The current customs duty structure remains relatively high, hence, incidences of smuggling are still prevalent as reflected by prices of some clothing and footwear items, which retail below the customs duty level.

1057. In order to foster compliance by informal traders and also at the same time avail modest protection to local manufactures of clothing, textiles and footwear, I propose that the specific component of duty be further reviewed downwards, with effect from 1 January 2011, as follows:

Item	Current Rate of Duty	Proposed Rate of Duty
Blankets	40%+US$2.50/kg	40%+US$1.50/kg
Clothing	40%+US$2.50/kg	40%+US$1.50/kg
Used Clothing and footwear	US$20/kg	US$5/kg
Travel Bags	40%+US$5/kg	40%+US$2.50/kg
Footwear	40%+US$5 per pair	40%+US$1 per pair

Valuation of Second Hand Motor Vehicles

1058. Where the declared value of non-merchandise goods imported by an individual for personal use, does not reflect a bona fide open market sale price, the Commissioner is empowered to determine the value on the basis of a previous determination. Where there is no such determination, the Commissioner may apply any modifications as he considers reasonable on the basis of information available.

1059. The application of discretionary powers of the Commissioner on the valuation of second hand motor vehicles has often resulted in disputes between the importer and ZIMRA. The application of arbitrary values has also created room for collusion between ZIMRA officials and importers to manipulate the value of motor vehicles.

1060. In order to ensure that the importer pays customs duty based on a fair value and also mitigate against revenue loss to the fiscus, it is pertinent that a standard valuation model be adopted. The model would ensure uniformity and transparency in the valuation of motor vehicles.

1061. The standard valuation method that I have proposed requires that the vehicle retail price be ascertained at the time when it was sold as new. The established value is thereafter depreciated using the reducing balance method until a specific residual value is attained.

1062. This valuation method however is not consistent with the World Trade Organisation provisions on valuation for duty purposes, hence, excise duty will be levied on second hand motor vehicles.

1063. This measure is effective from 1 July 2011.

Rebate of Duty on Fire Fighting, Rescue and Water & Sanitation Equipment

1064. Local Authorities provide critical services which include water and sanitation, disease control, waste and disaster management. There has, however, been limited investment in water and sewer reticulation and other social services provided by Local Authorities. Furthermore, disaster management, particularly in fire and rescue services is poor due to obsolete equipment, resulting in unnecessary loss of life and property.

1065. In order to support recapitalisation programmes that Local Authorities have embarked upon to procure and rehabilitate obsolete equipment, I propose that a rebate of duty be granted on fire fighting, rescue services, sewer and water reticulation equipment, with effect from 1 January 2011.

1066. A similar facility for duty free importation of road maintenance and refuse collection equipment is already in place.

Replacement of Rebates of Duty with Exemption

1067. The Customs and Excise legislation grants rebate of duty to mining companies that hold mining titles. The privilege enables these companies to import specified capital equipment free of customs duty and VAT.

1068. Treasury has been inundated by mining companies seeking to have their mining locations gazetted for purposes of benefiting from rebate of duty. However, some of the equipment that is imported is locally produced. Mining companies continue to import such equipment in order to benefit from the rebate at the expense of locally produced products.

1069. In order to level the playing field between locally produced and imported capital equipment, I propose that the rebate of duty on specific mining development operations be replaced by exemption from duty, whereby VAT is payable.

1070. This measure takes effect from 1 January 2011.

1071. Mining companies will, however, continue to benefit under deferment of VAT.

Value Added Tax

VAT Remittance Period

1072. Mr Speaker Sir, the VAT remittance period was gradually extended from the 5th to the 15th of the following month with effect from 1

January 2010, taking into account Government's cash flow requirements and the need to facilitate credit creation, thereby stimulating economic activity.

1073. However, due to liquidity constraints, business has to transact on a credit basis. On the other hand, VAT becomes due and payable once an invoice is issued, hence, the current remittance period limits the extent to which businesses can offer credit.

1074. In order to further stimulate production through credit creation, I propose that the VAT remittance period be extended from the 15th to the 20th of the following month, with effect from 1 January 2011.

Method of Accounting for VAT

1075. Stakeholders called upon Government to consider the accounting of VAT on cash basis, as opposed to the current accrual method. Due to the current liquidity challenges sales are often transacted on credit, hence, registered operators end up borrowing in order to pay VAT.

1076. The current VAT legislation requires registered operators to account for tax payable on an invoice basis. Accounting for VAT on accrual basis is a standard international practice which is not peculiar to this economy.

1077. The VAT legislation, however, provide for exceptional circumstances whereby upon a written application to the Commissioner, a registered operator may account for tax payable on payment basis.

Export Tax on Chrome Ore and Fines

1078. In order to encourage meaningful value addition, Government introduced a 15% export tax on chrome ore that is exported in raw form, with effect from 1 January 2010. Some exporters, however, resorted to exporting crushed chrome ore, in order to evade the tax. This prompted Government to expand the definition of unbeneficiated chrome ore to include semi-processed chrome concentrates and also increase the export tax on unprocessed chrome ore and fines to 20%.

1079. The export tax on unprocessed chrome ore and fines is administered under the VAT Act. Exporters of chrome ore and fines are thus offsetting the export tax through input tax claim. The export tax of 20% is thus rendered ineffective.

1080. I, therefore, propose to exclude the claiming of export tax as input tax.

Deferment of Value Added Tax on Medical Equipment

1081. Under the current legislation, deferment of VAT may be granted on equipment and machinery to be used on a registered mining location or where the goods are exclusively for manufacturing or industrial purposes. The deferment is granted for a period not exceeding ninety days.

1082. Due to the economic decline during the past decade, there has been limited recapitalisation in the medical sector which is necessary to keep abreast with technological developments. Significant investment in the medical sector has, however, been registered since the introduction of the multicurrency regime in 2009.

1083. Notwithstanding that the bulk of medical equipment does not attract customs duty, import VAT is, however, payable in line with regional and international standard practice where all goods and services are vatable.

1084. In order to support the recapitalisation of the medical sector, I propose to extend the VAT deferment to medical equipment of a capital nature, with effect from 1 January 2011.

Presumptive Tax

Designation of Local Authorities as Collecting Agents

1085. Presumptive taxes is levied on presumed income of those persons engaged in business not registered for tax purposes such as commuter omnibuses, hair salons, small scale miners and the cottage industry among others. Presumptive taxes were introduced in order to capture informal businesses that have remained outside the tax net.

1086. Despite measures instituted to capture the revenue inflows from the informal sector, which continues to account for a significant portion of economic activity, revenue contribution to the fiscus remains insignificant due to low compliance.

1087. Most informal sector operators require licences or permits in order to operate within the jurisdiction of local authorities. Local authorities are thus strategically positioned to act as collecting agents for some of the presumptive taxes, especially at the time when the business owners renew their licences and in the case of commuter omnibuses, when they apply for route permits or rank discs.

1088. I, therefore, propose to appoint Local Authorities which are tax compliant, as collecting agents for presumptive taxes levied on small business operations such as commuter omnibus operators, restaurants, bottle stores, the cottage industry, driving schools, taxis and hair saloons, with effect from 1 January 2011.

1089. Operators that are up to date with their tax obligations and have been issued with tax clearance certificates by ZIMRA are, however, exempt from payment of presumptive tax at the time of licencing.

1090. In order to incentivise Local Authorities to enforce compliance and also encourage remittance of presumptive tax to ZIMRA, I propose that Local Authorities retain 10% of the collected revenue in order to cover administration costs related to the collection of the taxes.

Small Scale Gold Producers

1091. Proceeds from the sale of gold by small scale gold producers are subject to 5% presumptive tax. The presumptive tax, which is withheld at the point of sale is not a final tax, hence, the seller is required to file a tax return in order to determine the tax liability.

1092. It has, however, been observed that, the bulk of small scale gold producers are not selling their gold through licenced gold buyers in order to evade payment of presumptive tax.

1093. In order to encourage small scale gold producers to sell their gold through licenced gold buyers, I propose that the presumptive tax be reviewed downwards from 5% to 2%, with effect from 1 January 2011.

Penalties for Non-Compliance

1094. During the 2011 National Budget consultations, stakeholders expressed concern over the high levels of penalties for non-compliance to tax legislation as well as the levying of different penalty levels for similar offences.

1095. Honourable Members will recall that, in the 2010 Mid-Term Fiscal Policy Statement, I proposed that Departmental Practice Notes on the administration of penalties be published for purposes of transparency.

1096. I, therefore, propose that a penalty loading model which informs taxpayers on the level of penalties be published through a gazette notice during the first quarter of 2011.

Penalties for Non or Late Submission of Returns

1097. The VAT Act provides that any registered operator who fails to furnish the Commissioner with a return within the prescribed form and timeframe shall be guilty of an offence and liable to a fine or to imprisonment for a period not exceeding twelve months, or to both such fine and such imprisonment. Similar offenses committed under the Income Tax Act are not subject to any penalty.

1098. Assessment of returns form the basis for determination of taxable income, hence, I propose to levy a penalty of US$30 for each day that Income Tax and VAT returns remain outstanding, with effect from 1 January 2011.

Rural District Councils' Unit Tax

1099. Mr Speaker Sir, in support of the Rural District Council to generate substantial resources through various charges and levies, Government introduced District Unit Tax on A1 and A2 farmers with effect from 1 January 2009. However, commercial farms and conservancies and small scale commercial farming areas which were not acquired under the land reform programme were excluded from the obligation to pay District Unit Tax.

1100. In order to uphold the principle of equity and fairness, I propose that the unit tax be extended to incorporate commercial farms which are not covered under the definition of A1 and A2 farms, with effect from 1 January 2011.

XV. CONCLUSION

1101. The crafting of the 2011 Budget has been an excruciating journey of balancing the unbalancable and twisting the untwistable. It is a journey that has taken us across the length and breadth of Zimbabwe. It is a journey that has seen us share the nights with witches pouring over endless documents. The drafting may have ended but the journey begins today.

1102. Mr Speaker Sir, 2011 presents a great opportunity for taking this economy to another platform. A platform on which significant strides can be made in the key areas of social delivery, infrastructure development and macro-economic development. In short, the actualisation of our **three Ss**, **Shared Economy, Shared Development** and **Shared Transformation**.

1103. In the pursuit of the dream of a **Fair Economy** we are aware of the historical imperator of fulfilling the dreams of African Leaders who met in Nairobi in 1981 and crafted the African Charter on Human and People's Rights mindful that the next challenge for Africans was that of development.

1104. We are, however, not naive. Serious political challenges continue arresting our country. The GPA remains fragile. Deep structural social and economic problems remain.

1105. These problems demand solution, leadership, and action. It was Kwame Nkrumah who said, “Revolutions are brought about by man, by man who think as man of action and act as man of thought”

1106. Honourable Mr Speaker Sir, I commend the 2011 National Budget to the House and I lay the Estimates of Expenditure on the Table.

I thank you.